



# **TSRC CORPORATION**

## **Annual Report 2011**

Annual Report website of FSC: <http://mops.twse.com.tw>

The company's website: <http://www.tsrc.com.tw>

Published on Mar 22, 2012

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The name of any exchanges where the company's securities are traded offshore, and the method by which to access information on said offshore securities: No

# C ontents

<b>A report to the shareholders</b> .....	5
<b>Company's profile</b> .....	7
I.Date of incorporation.....	7
II.Company history:.....	7
<b>Corporate governance report</b>	
I.Company's organization.....	10
II.Information on directors, supervisors, and managers.....	12
III.Status of corporate governance implementation.....	21
IV.Information about public expenses of CPA.....	30
V.Information about change of CPA.....	30
VI.Chairman, president, or manager in charge of the company's finance or accounting who has within the previous year held a position at the accounting firm of a certified public accountant or any of its affiliated enterprises.....	30
VII.Information on equity of directors, supervisors, managers and shareholders holding more than 10% of outstanding shares.....	31
VIII.Information about top ten shareholders being the related party as defined in Statement of Financial Accounting Standards No. 6.....	32
IX.Shares and shareholdings of the Company, Directors, Supervisors, Managerial Staff, and Direct and Indirect Investments of the Company in Affiliated Companies.....	33

## **Status of fundraising**

I. Company's capital and shares.....	35
II. Corporate bonds.....	39
III. Preferred shares, Global depository receipts, Employee stock option certificates, New shares are issued upon merger or acquisition or acquisition of other company's shares.....	39
IV. Implementation of funds utilization plans.....	39

## **Overview of business operations**

I. Description of business.....	41
II. Analysis of market as well as production and marketing situation.....	43
III. Human resources correlation data.....	46
IV. Expenditure for environmental protection.....	46
V. Labor relations.....	47
VI. Material contracts.....	48

## **Overview of financial status**

I. Condensed balance sheet and income statement for the recent five years.....	50
II. Financial analysis for the recent five years.....	52
III. Supervisors' audit report on the financial statement for the latest year.....	55
IV. Financial statement and CPA's Auditing Report.....	56
V. Consolidated financial statement and CPA's Auditing Report.....	90
VI. Any financial difficulty experienced by the company or its affiliates.....	136

**Review and analysis of the company's financial condition and business performance, and risk management**

I. Financial condition.....138

II. Business performance.....139

III. Cash flow.....140

IV. Effect upon financial operations of any major capital expenditure.....140

V. The company's reinvestment policy, the main reasons for profit/loss generated thereby, the plan for improving re-investment profitability, and investment plans for the following year.....140

VI. Analysis and assessment of risk management.....140

VII. Other important matters.....141

**Special items to be noted**

I. Information about the company's affiliates..... 143

II. State of the company's private placement of marketable securities... 148

III. Holding or disposal of the company's shares by the company's subsidiaries..... 148

VI. Other matters to be supplemented..... 148

**Other disclosures.....150**

**Any circumstances referred to in Paragraph 2(2) of Article 36 of the Securities and Exchange Act which might materially affect shareholders' equity or the price of the company's securities.....152**

# **A report to shareholders**

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## A report to the shareholders

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To all shareholders:

In 2011, the Company entered into a joint venture with other companies, including the CPC Corporation, to establish TAIWAN ADVANCED MATERIALS CORP. in Kaohsiung, covering the upstream field of C5 separation and the production of high-quality SIS products. In response to the growth of the market demand, SIS and SEBS capacities were established and expanded in Nantong District, receiving a rating of No. 30 under the Large Enterprise Citizen's Award by the Common Wealth Magazine and the Special Jury Prize, from the 2011 MAPECT Taiwan M&A Award. The Company also passed the certifications for greenhouse gas emission verification and hazardous material processing management systems. Operational and management results are outstanding and well-recognized by the industry.

### Review of Operation 2011

#### The result of operation and budget settlement, financial position, and analysis of profitability

Synthetic rubber sales were excellent in 2010, thanks to robust automobile markets in China, Europe, and United States. This caused the price of natural rubber to rise significantly due to supply and demand imbalance, which leads to more tire manufacturers using a larger amount of synthetic rubber to replace natural rubber, resulting in an increased demand and sales price of synthetic rubber. Although the price of butadiene fluctuated significantly, the operational team made the best planning and adjustment between production, sale and purchase, thereby increased profitability and created an year with the most outstanding operational results for the Company since its incorporation. In 2011, consolidated turnover is NT \$55,075,000,000, representing a growth of 50% from 2010. Operating gross margin is NT \$12,454,000,000, representing an increase of 89% from 2010. Operating net profit is NT \$10,301,000,000, representing an increase of 105% from 2010. Net profit after tax is NT \$5,742,000,000 representing an increase of 75% from 2010 and an increase of 16% compared to budget. The net rate of return after tax is 13.58%. The earnings per share after tax are NT \$8.03.

#### Status of Research and Development

By integrating Dexco's advanced technology, the Company's product quality and energy-saving efficiency have increased. Continuous development has been made in SSBR materials, which are required for high-performance, environment-friendly and energy-saving tires in response to the demands of environmental protection and the market trends. We actively recruit experts of international levels to jointly assist with the development of environment-friendly manufacturing processes and high-quality products in order to reinforce our competitive advantages.

### Summary of the Business Plan in 2012

Looking at the new year, with the negative financial situation in Europe and the fluctuation of the prices of raw materials such as crude oil, the overall economic situation is still uncertain. It is estimated that the demand for synthetic rubber will continue to grow in Asia. The company continues to fix the annual target of full production and full sales for this year. It will reinforce the control of raw materials and energy costs and is expected to successfully achieve the target of high profitability.

In terms of new investment, the joint venture NBR plant at Nantong will be completed in time and commenced for operation. New projects such as ESBR in India, SIS and SEBS in Nantong, as well as TAIWAN ADVANCED MATERIALS Corp., will be executed in accordance with the planned schedule and budget.

#### The development strategy of the Company in the future

In addition to expanding business investments on the existing operational basis, the company will constantly develop environmental-friendly and energy-saving materials and high quality products to seek higher performance, achieving operational results for the company as a return to all shareholders for their support and encouragement.

Chairman : Shao Yu Wang

## **Company's profile**



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# Company's profile

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## I. Company's profile

### (1) Date of incorporation

July 27, 1973

### (2) Company history:

- Nov. 1973 Taiwan Synthetic Rubber Corp. was incorporated formally. Working with B. F. Goodrich technically, the production site was established at Tashe Petrochemical Industrial Park, Kaohsiung, Taiwan capable of production of 100,000 MT/Yr. Styrene Butadiene Rubber (SBR).
- Feb. 1977 SBR plant was established and succeeded in test run.
- Jan. 1980 Working with Japan-based UBE to establish the synthetic rubber plant with capacity of 40,000 MT/Yr. BR.
- June 1982 BR plant was established and succeeded in test run.
- Sept. 1982 TSRC was listed on Taiwan stock exchange.
- May 1984 Introduction of production technology of Phillips Petroleum Company. Establishment of the plant with capacity of 20,000 MT/Yr. TPE
- Apr. 1988 Establishment, incoming and test run of the TPE plant
- Sept. 1991 Installation and test run of the pilot plant
- Sept. 1993 Installation and test run of the co-generation facilities
- Jan. 1994 Awarded the certificate of ISO-9002
- June 1994 TPE capacity was expanded to 48,000 MT/Yr. Test run was carried out.
- Sept. 1994 Capacity of the BR plant expanded to 54,000 MT/Yr. Establishment of the compound plant
- Oct. 1995 Participate in the establishment project for 50,000 MT/Yr. BR capacity with holding the equity of 12% in Thailand
- Jan. 1996 Expansion of the capacity of TPE plant to 54,000 MT/Yr. ready for commercialization
- March 1996 Incorporation of Shen Hua Chemical Industrial in Nantong of Mainland China, and establishment of a 100,000 MT/Yr. SBR plant
- Oct. 1996 Reinvest in Asia Pacific Energy Development Co., Ltd. to engage in the development of power locally and overseas.
- Jan. 1997 Awarded the certificate of ISO-9001
- Oct. 1997 Joint venture in the BR plant of Thailand-based TSL company ready for commercialization
- Feb. 1998 Awarded the certificate of ISO-14001
- June 1988 Investment in Taiwan High Speed Rail project
- Oct. 1998 Establishment, incoming and test run of the SBR plant of reinvested Shen Hua Chemical Industrial in Mainland China
- Aug. 1999 Renamed as "TSRC Corporation"
- Aug. 2000 Incorporate the joint venture, Atlantic Polymers GmbH, with the local expert in Germany to market the Company's products in Europe
- March 2001 Establishment of rubber business division Rubber Business, TPR business division Applied Polymers Business and reinvestment division investment business to formulate a responsibility accounting mechanism.
- Aug. 2001 Establishment of the reinvested TSRC Shanghai ready for commercialization
- Feb. 2002 New product of TPE plant, SEBS, succeeded in test run
- Oct. 2003 Capacity of the reinvested Shen Hua Chemical Industrial upgraded to 120,000 MT/Yr.
- Apr. 2004 Operation of the reinvested Nantong Qix Storage Co., Ltd. in Nantong of Mainland China
- July 2004 Incorporation of TPE application research center by TPR business division
- Aug. 2004 Establishment of Kangshan plant of TPR business division
- Oct. 2004 Operation of the new office in Taipei City
- Apr. 2005 Kangshan plant of TPR business division ready for commercialization
- June 2005 Capacity of the reinvested Shen Hua Chemical Industrial expanded to 180,000 MT/Yr.
- Dec. 2005 Establishment and operation of TPE application research center of Kangshan plant
- Sept. 2006 Incorporate TSRC (Nantong) Industrial Ltd. in Nantong, Mainland China scheduled to establish the SEBS Plant with yearly capacity of 20,000 tons
- Sept. 2006 Incorporate TSRC (Jinan) Industrial Ltd. in Jinann, Mainland China scheduled to establish the compound material plant with yearly capacity of 5,000 tons
- Dec. 2006 Incorporate TSRC-UBE(Nantong) Chemical Industrial Limited Corporation in Nantong, Mainland China scheduled to establish the BR Plant with yearly capacity of 72,000 tons
- Sept. 2007 TSRC (Jinan) Industrial Ltd. launched mass production formally.
- Nov. 2007 Wind up the investee in Germany, Atlantic Polymers GmbH
- July 2008 TSRC (Nantong) Industrial Ltd. Mass production.
- July 2008 Operation of the reinvested Polybus Corporation Pte.Ltd. in Singapore.

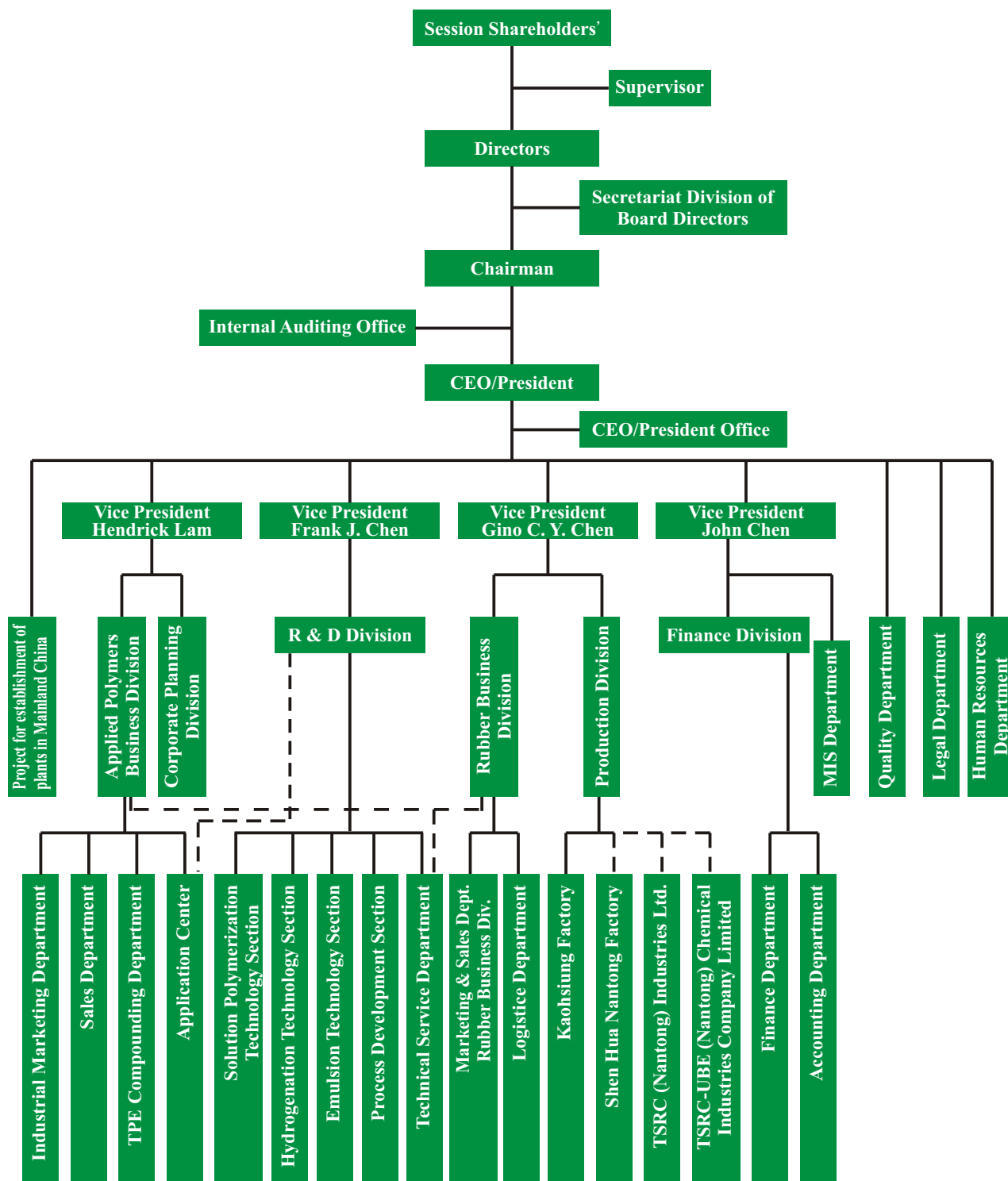
- May 2009 Launched into mass production TSRC-UBE(Nantong) Chemical Industrial Company Limited
- May 2009 Entered into an agreement on technology licensing with RUSTEP LLC/ OJSC SIBUR HOLDING of Russia.
- Dec. 2009 Accredited with OHSAS 18001 & TOSHMS occupational safety and hygiene management system.
- Apr. 2010 Launched an ESBR joint venture project with yearly capacity of 120 thousand tons in India together with Indian Oil Corporation Limited and Marubeni Corporation.
- Jun. 2010 Launched the joint venture project to build Lanxess TSRC (Nantong) Chemical Industrial Co Ltd. (with yearly capacity of 3 tons) in China together with Lanxess via a reinvested company.
- Dec. 2010 The Company signed an agreement with Dow and Exxon Mobile to purchase all shares of the U.S. company Dexco Polymers. The company has two main products: 32,000 tons of SIS and 30,000 tons of SBS.
- Dec. 2010 The Company signed an agreement with Exxon Mobil to purchase all shares of the U.S. company Dexco Polymers. The Company has two main products: 32,000 tons of SIS and 30,000 tons of SBS.
- Nov. 2011 The Company signed a joint venture agreement with the CPC Corporation and the Fubon Financial Holding Venture Capital Corp. to establish Taiwan Advanced Materials Corp. which produces the C-5 series of products.

# Corporate governance report

# Corporate governance report

## I. Company's organization

Structure



## Operations of major departments/divisions

CEO/President Office	Assist the President with operational strategic planning and project management of the Company, to achieve the Company's operational targets.
Rubber Business Division	Sale of synthetic rubber, customers' technology service, procurement and transportation, and quality assurance
Applied Polymers Business Division	Production and sale of compound materials, and sale of TPE
Finance Division	Programming of financial policies, and management of finance, accounting and information
Corporate Planning Division	Responsible for the Company's operational targets, strategies, and the development of new business, public relations, warehousing and trading of Mainland Chinese subsidiaries, as well as to provide administrative support and coordination of consolidated activities among Mainl and Chinese subsidiaries.
R & D Division	Responsible for new product development and the introduction of new technology, technical services for product promotion, the management and development of intellectual property, and assist the production divisions to swiftly resolve anomalous incidents.
Production Division	Management of the manufacturing functions for each domestic or overseas plant, establishment of the most suitable production management model and industrial safety & environmental protection policy, and planning and execution of the capacity expansion project for all plants.
Internal Auditing Office	Supervision, programming and execution of the company's internal control system
Human Resources Department	HR policies, development of organization, and administration of personnel and general affairs
Legal Department	Handle and maintain the legal affairs related to the company's interest and right
Finance Department	Programming and management of the business related to the company's funds, financing activities and reinvested enterprises and investors' activities
Accounting Department	Drafting of the company's accounting system, management of tax affairs, closing of costs and accounts, management of production of statement and programming of tax affairs
MIS Department	Information service, resource programming and development
Logistics Department	Supply and export/import management of raw materials and equipments, and logistics and transportation management of finished goods
Marketing & Sales Dept. Rubber Business Div.	Product marketing and sale of rubber business division, and customers' service
Kaohsiung Factory	Management of the various synthetic rubber products, output and environment protection
Quality Department	Synthesis principle plan, impetus quality/improvement special cases and so on environmental management system and management and policy, system, flow.
Industrial Marketing Department	Market survey and analysis of TPR business division's target industries, and the division's fairs, and helping the marketing programming of the related products, and TPR business division's development strategies and execution thereof
Sales Department	Sales and management of TPE products of TPR business division , and management thereof
TPE Compounding Department	Production and sale of compound products of TPR business division
Project for establishment of plants in Mainland China	Business related to establishment of plants in Mainland China

## II. Information on directors, supervisors, presidents, vice presidents and executive vice presidents

### 1. Information on directors and supervisors(1)

Dec. 31, 2011

Job title	Name	Date of appointment	Term of office	Date of first appointment	Shares held when appointed		Shares currently held		Shares currently held by their spouses and children of minor age		Shares held in another person's name		Education degree and work experience	Position(s) concurrently held in the company and/or in any other companies	Other officers, directors or supervisors who are their spouses or relatives of 2 <sup>nd</sup> degree of relationship		
					Share(s)	Stake	Share(s)	Stake	Share(s)	Stake	Share(s)	Stake			Job title	Name	Relationship
Chairman	Hao Ran Foundation Statutory Representative: Shao Yu Wang	98.6.10	3	77.7.27	47,360,347 0	7.3% 0	52,096,381 0	7.3% 0	330,000	0.1%	0	0	Soochow University ROC/Fudan University PRC	Yung-an rental Corp. Taiwan insulation material industrial company. Director of BOA	No	No	No
Director	Hao Ran Foundation Statutory Representative: Liang Chang	98.6.10	3	77.7.27	47,360,347 0	7.3% 0	52,096,381 0	7.3% 0	0	0	0	0	Ph.D. Economics SUNY, USA	Chairman of Jardine Matheson Taiwan Central China Energy Development Co., Ltd. Vice Chairman of Global Financial Services Corporation. Director of Asia Pacific Energy Development co., Ltd. Taiwan Acceptance Corporation. Yulon Motor co., Ltd. Altek Corporation. TSRC(USA) Investment Corporation. Independent director of HSBC (Taiwan).	No	No	No
Director	Hao Ran Foundation Statutory Representative: Nita Ing	98.6.10	3	74.7.27	47,360,347 11,203,842	7.3% 1.7%	52,096,381 72,149	7.3% 0	0	0	0	0	Economics, UCLA, USA	President of Hao RAN foundation. Continental Holdings Corp. GM of CEC	No	No	No
Director	Hao Ran Foundation Statutory Representative: Tzu Wei Lee	98.6.10	3	91.9.2	47,360,347 825	7.3% 0	52,096,381 907	7.3% 0	0	0	0	0	M.Sc., Management Science National Chaotung University ROC	Director of Aamerican Bridge Holding Company. Director of New Continental Corporation Director of TSRC (USA) Investment Corporation	No	No	No
Director	Wei Dah Development Co., Ltd. Statutory Representative: Charles Huang	98.6.10	3	83.7.27	22,397,088 0	3.4% 0	24,636,796 0	3.4% 0	0	0	0	0	MBA Wharton school, UP USA	Director of Advanced Control & Systems Inc. Director of En Tie Commercial Bank	No	No	No
Director	Wei Dah Development Co., Ltd. Statutory Representative: J. K. Loh	98.6.10	3	77.7.27	22,397,088 0	3.4% 0	24,636,796 0	3.4% 0	0	0	0	0	MLC SMU USA	President of Dah Chung Bills Finance Corp.	No	No	No
Director	Ching Shan Zhen Corporation Statutory Representative: D. Otto Cheng	98.6.10	3	77.7.27	520,824 329,242	0.1% 0.1%	572,906 362,166	0.1% 0.1%	256,363	0	0	0	Ph.D. Chemistry, MSU, USA	Independent supervisor of Ardentec Corporation Director of TSRC(USA) Investment Corporation	No	No	No
Independent Director	Harry M. F. Huang	98.6.10	3	92.7.27	0	0	0	0	1,000	0	0	0	Accounting Soochow University ROC	President of WINSOON Investment Corporation Limited.	No	No	No
Independent Director	Ting Kai (Peter) Wu	98.6.10	3	92.7.27	0	0	0	0	0	0	0	0	M.Ph.D. Columbia U, HBS Exec ED USA	Chairman of Boston Life Science Venture Company. President of China Synthetic Rubber Corporation Vice Chairman and CEO of Continental Carbon Corporation Independent Director of Taiwan Advanced Materials Corporation	No	No	No
Supervisor	Dragon Investment Corporation Statutory Representative: Dragon Tai	98.6.10	3	92.7.27	19,876,762 0	3.1% 0	21,864,438 0	3.1% 0	0	0	0	0	MBA NYIT USA	Chief auditor of Continental Holdings Corp.	No	No	No
Supervisor	Miles Hsieh	98.6.10	3	92.7.27	0	0	0	0	0	0	0	0	BA, Soochow University ROC	Miles Hsieh CPA	No	No	No

## Major corporate shareholders

Dec. 31, 2011

Corporate shareholders appellation	Major corporate shareholders
Hao Ran Foundation Statutory	NA
Wei Dah Development Co.,Ltd.	Ching Shan Zhen Corporation (99.8%)
Ching Shan Zhen Corporation	Dugan Corp. BVI (99.8%)
Dragony Investment Corporation	Long Reign Holding Inc. BVI (99.8%)

## Major shareholders of major corporate shareholders

Dec. 31, 2011

Corporate shareholders appellation	Major corporate shareholders
Ching Shan Zhen Corporation	Jode Fortune Enterprises Inc. (100%)
Dugan Corp. BVI	Long Reign Holdings Inc. (100%)
Long Reign Holding Inc. BVI	Auroral Limited. (100%)

## Independency of directors and supervisors(2)

Conditions	Whether they possess work experience of more than five years and the following professional qualifications			Compliance with the circumstances for independency (Note)										Number of other public companies in which he/she assumes an independent director concurrently
	At least lecturers of business, law, finance or accounting departments or other relevant departments/divisions required by the Company's business of public and private colleges/universities	Judges, prosecutors, attorneys, CPAs, or other professional and technical personnel possessing licenses after passing national examinations as required by the Company's business	Experience in business, law, finance and accounting, and other work required by the Company's business	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
Name														
Shao Yu Wang	√	√	√	√		√	√	√	√	√	√	√	√	No
Liang Chang			√	√		√	√	√		√	√	√		1
Charles Huang			√	√		√	√	√	√	√	√	√		No
Nita Ing			√	√		√		√	√	√	√	√		No
Harry M. F. Huang			√	√	√	√	√	√	√	√	√	√	√	1
D. Otto Cheng			√	√		√	√	√		√	√	√		No
Ting Kai (Peter) Wu			√	√	√	√	√	√	√	√	√	√	√	1
Tzu Wei Lee			√	√		√	√	√		√	√	√		No
J. K. Loh	√	√	√	√		√	√	√	√	√	√	√		No
Miles Hsieh		√	√	√	√	√	√	√	√	√	√	√	√	No
Dragon Tai			√	√		√	√	√	√	√	√	√		No

(1) Who are not employees of the Company or its affiliates;

(2) Who are not directors/supervisors of the Company or its affiliates (excluding independent directors of the Company or its parent company, or subsidiaries in which the Company holds more than 50% of the shares with voting right directly and indirectly);

(3) Who are not directors/supervisors, or the directors'/supervisors' spouses or minor children, or natural person shareholders who possess more than 1% of the Company's total issued shares in the name of another person, or top ten natural person shareholders

(4) Who are not spouses, relatives within 2nd degree of relationship or lineal relatives within 5th degree of relationship of the personnel referred to in the preceding three subparagraphs;

(5) Who are not directors, supervisors or employees of corporate shareholders holding more than 5% of the Company total issued shares directly, or directors, supervisors or employees of top five corporate shareholders;

(6) Who are not directors, supervisors, managers or shareholders holding more than 5% of the shares of any specific companies or organizations which have financial or business transactions with the Company;

(7) Who are not the owners, partners, directors, supervisors, managers and spouses of the experts, proprietorship, partnership, companies or organizations that have provided financial, commercial and legal services and consultation to the company and its affiliates within the recent year;

(8) Who are not spouses or relatives within 2nd degree of relationship of the other directors

(9) Who are free from any of the circumstances referred to in Article 30 of the Company Act;

(10) Who are not the corporations or representatives defined in Article 27 of the Company Act;

## 2. Information on presidents, vice presidents and executive vice presidents

Dec. 31, 2011

Job title	Name	Date of appointment	Shares held		Shares currently held by their spouses and children of minor age		Shares held in another person's name		Education degree and work experience Share(s)	Position(s) concurrently held in the company and/or in any other companies	Managers who are their spouses or relatives of 2 <sup>nd</sup> degree of relationship		
			Share(s)	Stake	Share(s)	Stake	Share(s)	Stake			Job title	Name	Relationship
President	Wei-Hua Tu	95.09.15	51,261	0.01%	0	—	0	—	TSRC Acting President, Marketing Dep. Asst. President. President of CBD / Accounting & Statistics, National Cheng Kung University ROC	President of Shen Hua chemical Industrial Ltd. TSRC(Nantong) Industrial Ltd. TSRC-UBE (Nantong) Chemical Industrial Limited Corporation Nantong Qix Sforage Co., Ltd. TSRC (Shanghai) Industrial Ltd., TSRC (Jinan) Industrial Ltd. Director of Polybus Corp. Pte. Ltd. TSRC(Hong Kong) Limited. Trimurti Holding Corp. Hardison International Corp. Dymas Corp. Triton Int'l Holdings Corp. TSRC Biotech Led.	No	No	No
General Manager Rubber Business Division	Gino C. Y. Chen	98.04.01	12,307	0	0	—	0	—	TSRC Applied Polymers Business Div. President Kaohsiung factory manager. Marketing manager/National Central University ROC	Director of Shen Hua chemical Industrial Ltd. TSRC(Nantong) Industrial Ltd. TSRC-UBE (Nantong) Chemical Industrial Limited Corporation	No	No	No
Vice President Corporate Planning Division	Hendrick Lam	93.07.16	0	0	0	—	0	—	Controller of Pacific industrial Co.,Ltd. Assistance president of First Pacific Co., Ltd. / Hong Kong Shan Kei Wan Indutural School	Director of TSRC (Nantong) Industrial Ltd. TSRC (Shanghai) Industrial Ltd., TSRC (Jinan) Industries Ltd. Trimurti Tiading Corp. Hardison International Corp. Tsrc Biotech Ltd. TSRC (HongKong) Limited Dymas Corporation. Sin Dah Development Company Limited Continental Holdings Corp.	No	No	No
Vice President Finance Department	John Chen	98.04.01	0	0	0	—	0	—	Asst VP, Wan Hai Lines Ltd. MBA, UC Irvine	Director of Shen Hua chemical Industrial Ltd. Polybus Corporation Pte.Ltd. Hardison International Corp. TSRC (HongKong) Limited ; Supervisor of TSRC (Nantong) Industrial Ltd. TSRC-UBE (Nantong) Chemical Industrial Limited Corporation, TSRC (Shanghai) Industrial Ltd. TSRC(Jinan)Industrial Ltd. Lanxess-TSRC(Nantong) Chemical Industrial Co., Ltd.	No	No	No
Vice President R & D Division.	Frank J. Chen	98.04.01	0	0	0	—	0	—	Deputy Director, Institute of Chemical Engineering, ITRI Project Leader, Exxon Chemical Co., PhD, High Molecular Science, Akron University, Ohio, USA	No	No	No	
Asst. Vice President Applied Polymers Business Unit	Cheong Kow	98.09.01	0	0	0	—	0	—	Sika Corporation, Madison Heights, MI, CorporateFellow / PhD, High Molecular Science, Akron University, Ohio, USA	No	No	No	
Asst. Vice President production Division	R. L. Chiu	98.04.01	1,772	0.00%	0	—	0	—	TSRC Kaohsiung factory manager. Vice President & Factory manager of Shen Hua Chemical Industrial Co., Ltd. / Dep.of CME, Chung Yuan Christian University ROC	No	No	No	
Asst. Vice President Internal Auditing Office	Nick Lin	94.03.21	3,762	0.00%	0	—	0	—	Assistant president of Prudential Life Insurance Company Graduated school of NTUST ROC	No	No	No	
Asst. Vice President Rubber Business Division	Chin-Chang Ting	94.12.30	840	0.00%	0	—	0	—	TSRC Kaohsiung factory manager President of Shen Hua chemical Industrial Ltd. Factory manager/ Chemical Industry, Tamkang University ROC	Director of Shen Hua chemical Industrial Ltd. Nantong Qix Sforage Co., Ltd.	No	No	No



Job title	Name	Date of appointment	Shares held		Shares currently held by their spouses and children of minor age		Shares held in another person's name		Education degree and work experience Share(s)	Position(s) concurrently held in the company and/or in any other companies	Managers who are their spouses or relatives of 2 <sup>nd</sup> degree of relationship		
			Share(s)	Stake	Share(s)	Stake	Share(s)	Stake			Job title	Name	Relationship
Asst. Vice President Compound Department	Kuo Huang-Cheng	94.11.01	579	0.00%	911	—	0	—	President of TSRC (Shanghai) Industrial Ltd. TSRC applied polymers manager / Chemistry, Tamkang University ROC	Director of TSRC (Shanghai) Industrial Ltd. TSRC (Jinan) Industries Ltd.	No	No	No
Asst. Vice President MIS Department	Eddy Chao	97.08.01	2,343	0.00%	0	—	0	—	Director-General of Information Division, Siemens Telecommunication Systems Ltd./R&E Engineer of Alcatel Lucent Taiwan/Graduated from Department of Management Science of National Chiao Tung University	No	No	No	
Asst. Vice President Rubber Business Division	Alice Yuan	98.04.01	228	0.00%	200	—	0	—	Manager of Tsrc Rubber Business Division Marketing & Sales Department/ Economics, Feng Chia University	Polybus Corporation Pte. Ltd. The sale and the market sell manager Director of Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd. Indian Synthetic Rubber Litimited	No	No	No
Asst. Vice President Quality Department	Justice Huang	98.04.01	11,462	0.00%	0	—	0	—	Manager of Tsrc Quality Assurance Department / Dept of Chemical Engineering, ITRI.	No	No	No	
Asst. Vice President Legal Department	Tsung-Han Lin	98.05.01	2,626	0.00%	5,643	—	0	—	Legal Affairs Manager and acting Secretary General of the Board; LLM, Peoples' University of China, licensed attorney-at-law, passed the civil servant advanced level examination.	No	No	No	
Asst. Vice President Corporate Planning Division	Lee Pei (Lee) Chou,	98.09.10	6,600	0.00%	0	—	0	—	Group manager, International Business Development, ITRI./PhD, High Molecular Science, Akron University, Ohio, USA	President of Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd. Director of Indian Synthetic Rubber Litimited	No	No	No
Asst. Vice President Research & Development Department	Jeff Tsai	100.12.01	19	0.00%	4,125	—	0	—	Asst. Vice President of Walsin Technology Corporation, section chief of TSRC R&D, National Tsing Hua University Department of Chemical Engineering	No	No	No	

(3) Remuneration paid to directors, supervisors, presidents and vice presidents

1. Directors' remuneration

Unit: NT\$1,000

Job title	Name	Directors remuneration								Relevant remuneration received by directors who are also employees								Percentage of total of A, B, C, D, E, F and G accounting for income after tax		Whether remuneration from any reinvested companies other than subsidiaries is received?								
		Reward (A)		Pension fund (B)		Remuneration distributed from earnings (C)		Business execution expenses (D)		Percentage of the total of A, B, C and D accounting for income after tax		Salary, bonus and special allowance (E)		Pension fund (F)		Employees' distributed from earnings (G)					Acquisition of employee stock option certificates (H)							
		The company	Companies in consolidated statement	The company	Companies in consolidated statement	The company	Companies in consolidated statement	The company	Companies in consolidated statement	The company	Companies in consolidated statement	The company	Companies in consolidated statement	The company	Companies in consolidated statement	The company	Companies in consolidated statement	Cash dividend Amount	Stock dividend Amount		Cash dividend Amount	Stock dividend Amount	The company	Companies in consolidated statement	The company	Companies in consolidated statement		
Chairman	Hao Ran Foundation Statutory Representative: Shao Yu Wang																											
Director	Hao Ran Foundation Statutory Representative: Nita Ing																											
Director	Hao Ran Foundation Statutory Representative: Tzu Wei Lee																											
Director	Hao Ran Foundation Statutory Representative: Liang Chang																											
Director	Hao Ran Foundation Statutory Representative																											
Director	Wei Dah Development Co., Ltd. Statutory Representative: Charles Huang	Total 5,820	Total 5,820	Total 0	Total 0	Total 37,417	Total 37,417	Total 3,209	Total 3,209	0.81%	0.81%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.81%	0.81%	NO
Director	Wei Dah Development Co., Ltd. Statutory Representative: J. K. Loh																											
Director	Wei Dah Development Co., Ltd.																											
Director	Ching Shan Zhen Corporation Statutory Representative: D. Otto Cheng																											
Director	Ching Shan Zhen Corporation																											
Independent Director	Harry M. F. Huang																											
Independent Director	Ting Kai (Peter) Wu																											

Remark: One driver is assigned to the Chairman, and paid the remuneration of NT\$800 thousand.

Escalation of remuneration

Escalation of remuneration paid to the various directors	Name of directors			
	Total (A+B+C+D)		Total (A+B+C+D+E+F+G)	
	The company	Companies in consolidated statement	The company	Companies in consolidated statement
2,000,000 below	Nita Ing Liang Chang Tzu Wei Lee D. Otto Cheng J. K. Loh Charles Huang	Please refer to the left column.	Nita Ing Liang Chang Tzu Wei Lee D. Otto Cheng J. K. Loh Charles Huang	Please refer to the left column.
2,000,000 (inclusive of 2,000,000)- 5,000,000(does not contain 5,000,000)	Shao Yu Wang Ting Kai (Peter) Wu Harry M. F. Huang Ching Shan Zhen Corporation	Please refer to the left column.	Shao Yu Wang Ting Kai (Peter) Wu Harry M. F. Huang Ching Shan Zhen Corporation	Please refer to the left column.
5,000,000 (inclusive of 5,000,000)- 10,000,000(does not contain 10,000,000)	Wei Dah Development Co., Ltd.	Please refer to the left column.	Wei Dah Development Co., Ltd.	Please refer to the left column.
10,000,000 (inclusive of 10,000,000)- 15,000,000(does not contain 15,000,000)	-	-	-	-
15,000,000 (inclusive of 15,000,000)- 30,000,000(does not contain 30,000,000)	Hao Ran foundation	Please refer to the left column.	Hao Ran foundation	Please refer to the left column.
30,000,000 (inclusive of 30,000,000)- 50,000,000(does not contain 50,000,000)	-	-	-	-
50,000,000 (inclusive of 50,000,000)- 100,000,000(does not contain 100,000,000)	-	-	-	-
100,000,000 above	-	-	-	-
Total	9	9	9	9

Note: Remuneration distributed from earnings means the remuneration to be distributed to directors from earnings of 2011 subject to the resolution made by the directors' meeting on March 14, 2012 and calculated based on the proportion of the distribution to directors/supervisors in last year. The details about the distribution have not yet been resolved before the publication date of the financial statement.

2. Supervisors' remuneration

Unit: NTS1,000

Job title	Name	Supervisors remuneration						Percentage of the total of A, B, and C accounting for income after tax		Whether remuneration from any reinvested companies other than subsidiaries is received?
		Reward (A)		Remuneration distributed from earnings (B)		Business execution expenses (C)		The company	Companies in consolidated statement	
		The company	Companies in consolidated statement	The company	Companies in consolidated statement	The company	Companies in consolidated statement			
Supervisor	Dragony Investment Corporation Statutory Representative: Dragon Tai	0	0	Total 6,803	Total 6,803	Total 847	Total 847	0.13%	0.13%	No
Supervisor	Dragony Investment Corporation									
Supervisor	Miles Hsieh									

Escalation of remuneration paid to the various supervisors (note)	Name of supervisors	
	Total (A+B+C)	
	The company	Companies in consolidated statement
2,000,000 below	Dragon Tai	Please refer to the left column.
2,000,000 (inclusive of 2,000,000)- 5,000,000 (does not contain 5,000,000)	Miles Hsieh Dragony Investment Corporation	Please refer to the left column.
5,000,000 (inclusive of 5,000,000)- 10,000,000 (does not contain 10,000,000)	-	-
10,000,000 (inclusive of 10,000,000)- 15,000,000 (does not contain 15,000,000)	-	-
15,000,000 (inclusive of 15,000,000)- 30,000,000 (does not contain 30,000,000)	-	-
30,000,000 (inclusive of 30,000,000)- 50,000,000 (does not contain 50,000,000)	-	-
50,000,000 (inclusive of 50,000,000)- 100,000,000 (does not contain 100,000,000)	-	-
100,000,000 above	-	-
Total	2	2

Note: Remuneration distributed from earnings means the remuneration to be distributed to supervisors from earnings of 2011 subject to the resolution made by the directors' meeting on March 14, 2012 and calculated based on the proportion of the distribution to directors/supervisors in last year. The details about the distribution have not yet been resolved before the publication date of the financial statement.

### 3. Presidents' and vice presidents' remuneration

Unit: NT\$1,000

Job title	Name	Salary (A)		Pension fund (B)		Bonus, special allowance (C)		Employees' dividend distributed from earnings (D)				Percentage of the total of A, B, C and D accounting for income after tax (%)		Acquisition of employee stock option certificates		Whether remuneration from any reinvested companies other than subsidiaries is received ?	
		The company	Companies in consolidated statement	The company	Companies in consolidated statement	The company	Companies in consolidated statement	The company		Companies in consolidated statement		The company	Companies in consolidated statement	The company	Companies in consolidated statement		
								Cash dividend Amount	Stock dividend Amount	Cash dividend Amount	Stock dividend Amount						
President	Wei-Hua Tu																
Vice President	Gino C. Y. Chen																
Vice President	Hendrick Lam	Total 15,590	Total 15,590	0	0	Total 13,566	Total 13,566	Total 3,741	0	Total 3,741	0	0.57%	0.57%	0	0		No
Vice President	Frank J. Chen																
Vice President	John Chen																

Remark: One leased vehicle and one driver assigned to the President. The yearly rent for the leased vehicle is NT\$ 443 thousand and the remuneration paid to the driver is NT\$ 506 thousand.

Escalation of remuneration paid to presidents and vice presidents	Name of presidents and vice presidents	
	The company	Companies in consolidated statement
2,000,000 below	–	–
2,000,000 (inclusive of 2,000,000)-5,000,000(does not contain 5,000,000)	–	–
5,000,000 (inclusive of 5,000,000)-10,000,000(does not contain 10,000,000)	Wei-Hua Tu, Gino C. Y. Chen, Hendrick Lam, John Chen, Frank J. Chen	Please refer to the left column.
10,000,000 (inclusive of 10,000,000)-15,000,000(does not contain 15,000,000)	–	–
15,000,000 (inclusive of 15,000,000)-30,000,000(does not contain 30,000,000)	–	–
30,000,000 (inclusive of 30,000,000)-50,000,000(does not contain 50,000,000)	–	–
50,000,000 (inclusive of 50,000,000)-100,000,000(does not contain 100,000,000)	–	–
100,000,000 above	–	–
Total	5	5

#### 4.Names of managers distributed employees' bonus, and distribution thereof

Dec. 31, 2010

	Job title	Name	Stock dividend amount	Cash dividend amount	Total (NT\$1,000)	Percentage of the total income after tax (%)
Number of Manager	President	Wei-Hua Tu	0	Total 9,013	Total 9,013	0.16%
	Vice President	Gino C. Y. Chen				
	Vice President	Hendrick Lam				
	Vice President	Frank J. Chen				
	Vice President	John Chen				
	Asst. Vice President	Alice Yuan				
	Asst. Vice President	R. L. Chiu				
	Asst. Vice President	Justice Huang				
	Asst. Vice President	Kuo Huang -Cheng				
	Asst. Vice President	Chin-Chang Ting				
	Asst. Vice President	Tsung-Han Lin				
	Asst. Vice President	Nick Lin				
	Asst. Vice President	Eddy Chao				
	Asst. Vice President	Lee Pei (Lee) Chou				
	Asst. Vice President	Cheong Kow				
Asst. Vice President	Jeff Tsai					

Note 1: Employees' bonus plan is according to the resolution of directors' meeting on March 14, 2012. The detailed allocation is not resolved as the day when annual report published.

(4)The percentage of remuneration paid by the Company and companies included in the consolidated statements to directors, supervisors, presidents and vice presidents of the Company over income after tax in recent two years, and the policy, criteria, composition, and process to set the remuneration, and the correlation thereof with operational performance:

Unit: NT\$1,000

Job title	2011		2010	
	Total remuneration	Percentage of over income after tax	Total remuneration	Percentage of over income after tax
Director	46,446	0.81%	34,312	1.05%
Supervisor	7,650	0.13%	5,388	0.16%
President \ Vice President	32,897	0.57%	28,691	0.87%
Total	86,993	1.51%	68,391	2.08%

This company pays the Director, the Supervisor, President and Vice President pays policy, criteria, composition, process, to set the remuneration, and the correlation there of with operational performance.

The relevant remuneration payable by the Company to directors and supervisors shall be subject to the resolution of the shareholders' meeting, while the remuneration payable to President and Vice President shall be subject to Management Rules Governing Salary, in order to maintain the competitive salary and remuneration standards in the market. Meanwhile, it is necessary to take the salary position applicable to the relevant job ranks in the same trade, company's overall operational performance and personal performance to define the salary portfolio consisting of monthly salary (including base pay, allowance and additional pay) and year-end bonus. Institution of work principle another this salary policy, will appraise to the future does not have the risk.

### III. Status of corporate governance implementation

#### (1) Operation of the Board of Directors:

The Board of Directors held 7 meetings in 2011. The attendance of directors in the meetings is specified as follows:

Job title	Name	Frequency of actual attendance	Frequency of proxy attendance	Actual attendance rate (%)	Remarks
Chairman	Hao Ran Foundation Statutory Representative: Shao Yu Wang	7	0	100.00%	
Director	Hao Ran Foundation Statutory Representative: Nita Ing	5	2	71.43%	
Director	Hao Ran Foundation Statutory Representative: Tzu Wei Lee	7	0	100.00%	
Director	Hao Ran Foundation Statutory Representative: Liang Chang	7	0	100.00%	
Director	Wei Dah Development Co., Ltd. Statutory Representative: J. K. Loh	7	0	100.00%	
Director	Wei Dah Development Co., Ltd. Statutory Representative: Charles Huang	7	0	100.00%	
Director	Ching Shan Zhen Corporation Statutory Representative: D. Otto Cheng	7	0	100.00%	
Independent Director	Ting Kai (Peter) Wu	7	0	100.00%	
Independent Director	Harry M. F. Huang	6	1	85.71%	

Other matters to be noted:

1. Matters referred to in Article 14.3 of the Securities and Exchange Act, and other matters resolved by the directors' meeting against which any independent director shows dissent or qualified opinion, which is included in a record or written statement - None.
2. Directors' avoidance of motions with conflict of interest - None.
3. Objectives for enhancement of functions of the Board of Directors in the current year and recent years and evaluation of execution thereof - None.

#### (2) Information about supervisors' participation in the operation of the board of directors

The Board of Supervisor held 7 meetings in 2011. The attendance of supervisor in the meetings is specified as follows:

Job title	Name	Frequency of actual attendance	Frequency of proxy attendance	Actual attendance rate (%)	Remarks
Supervisor	Dragony Investment Corporation Statutory Representative: Dragon Tai	7	0	100.00%	
Supervisor	Miles Hsieh	6	1	85.71%	

Other matters to be noted:

1. Formation and job responsibilities of supervisors:
  - i. The communication between supervisors and the Company's employees and shareholders:  
The Company's employees may communicate with supervisors via phone or email.
  - ii. Communication between supervisors and the internal auditing supervisor and CPA:  
Supervisors may communicate with the CPA about the Company's financial statements. The internal auditors may issue the auditor's report for supervisors' review irregularly.
2. If supervisors attending a directors' meeting state their opinion at the meeting, it is necessary to specify the date, session, motions and resolutions of the directors' meeting, and The Company's response to the supervisors' opinion - None.

(3) Status of implementation of corporate governance, reasons and remedies to nonconformity to the Corporate Governance Best-Practice Principles for TSE/OTC Listed Companies:

Items	Status	Reasons and remedies to nonconformity to the Corporate Governance Best-Practice Principles for TSE/OTC Listed Companies
<p>1. Equity structure and shareholders equity</p> <p>(1) Handling suggestions from shareholders and disputes.</p> <p>(2) Control of the list of major shareholders and the major parties behind such shareholders.</p> <p>(3) The establishment of risk control mechanism and firewall between the company and its affiliates.</p>	<p>(1) The list of major shareholders and the major parties behind such shareholders is disclosed pursuant to laws.</p> <p>(2) The company's board of directors has the auditing commission responsible for auditing the implementation of personnel, assets and finance between the company and affiliates. The inspecting unit will enforce relevant measure for internal audit and control, to ensure the control of risk and compliance with laws.</p>	No
<p>2. The organization of the Board of Directors and their duties</p> <p>(1) The position of independent director.</p> <p>(2) Regular review and assessment on the impartiality and independence of the certifying CPA.</p>	<p>(1) The Board has 2 independent directors. An independent director will convene the auditing commission.</p> <p>(2) The company will retain a new certifying CPA each year and replace the certifying CPA periodically to ensure the impartiality and independence of the CPA.</p>	No
<p>3. Communication channels with stakeholders.</p>	<p>The company's relevant business departmental personnel will keep in touch with stakeholders. The supervisory management of the board of directors will take care of the stakeholders' opinion.</p>	No
<p>4. Disclosures</p> <p>(1) The company has installed a website for the disclosure of its financial position and status of corporate governance.</p> <p>(2) The company also adopts other means for disclosure. (i.e. English web site, personnel dedicated to collect and disclose company information, establishment of a spokesperson policy, disclosure of the process of investor conference on company web site, etc.)</p>	<p>(1) The company's related information and annual reports will be posted on the company's website periodically, and important message will be released by the company's spokesman pursuant to laws.</p> <p>(2) The said enhancement of transparency of information and investors' services includes the expansion of links with revenue, quarterly statement, annual report and shareholders' relationship by means of public information system and the company's website.</p>	No
<p>5. The establishment nominator or remuneration Commission and its Other function</p>	<p>The Board of Directors has established the corporate governance commission dedicated to promoting and programming the various corporate governance principles and to examining the Company's nomination and salary policies.</p>	No



Items	Status	Reasons and remedies to nonconformity to the Corporate Governance Best-Practice Principles for TSE/OTC Listed Companies
	6.	<p>The company has instituted internal rules for corporate governance in accordance with the “Corporate Governance Best-practice Principles for TSE/OTC Listed Companies” , please explain clearly its operation with to subscribe the company to govern difference of the practice rules Different situation</p> <p>According to the “Corporate Governance Best-Practice Principles for TSE/OTC Listed Companies” , the company has instituted the various functional commissions such as independent directors, independent supervisors and audit commission. Meanwhile, the functions referred to in the Principles with respect to the functions of the various commissions are also fulfilled in the rules for institution of the various commissions subject to the job responsibility of the various commissions. The company also continues researching and promoting the various measures related to the corporate governance in accordance with the relevant requirements provided in the Principles.</p>
	7.	<p>Other information essential for the understanding of corporate governance: “Like the staff rights and interests, the employee show loving care for, the investor to relate, the supplier to relate, right, the trustee and the supervisor, the risk management policy and the risk measurables, the customer policy, the company the formidable sponsor for the trustee and situation of the supervisory purchase liability insurance”</p> <p>(1)In order to enhance the safety performance, the Company continues holding education &amp; training and safety meetings to enable such interested parties as employees and interested parties to verify and thoroughly execute the safe working procedure. Meanwhile, in order to comply with the laws and policies, the Company strictly fulfills the internal operating procedures and the relevant environmental management systems to pursue the enhancement of the environmental performance with respect to R&amp;D, raw material, production process, equipment, storage and sale.</p> <p>(2)The company's directors and supervisors will take part in the relevant educational training courses held by the SFI and CGA irregularly. The Secretariat of Board of Directors will provide the directors and supervisors with the relevant educational training information to help them apply for continuing education);</p> <p>(3)The company's directors and supervisors will attend the directors' meetings on time. Where they fail to attend the meetings with reasons, they shall issue proxies to appoint other directors to attend the meetings on behalf of them.</p>
	8.	<p>Explanation about the Company's self-assessment report or the corporate governance assessment report of any other commissioned professional organization, Should explain clearly it from to comment (either outside committee appraisal) the result, the main flaw (or suggestion) the item and the improvement situation:</p> <p>The Company strives to promote the various corporate governance principles; however, the Company has not yet conducted any self-assessment or appointed any external organizations to conduct the assessment.</p>

(4)The company establishes the salary reward committee information:

The Company passed the “Rules for Organization of the Remuneration Committee” by resolution in the 19<sup>th</sup> meeting of the 13<sup>th</sup> term of the Board of Directors. On January 2<sup>nd</sup>, 2012, the first meeting of the 13<sup>th</sup> term of Remuneration Committee was held, and the Chairman was elected in the meeting.

The remuneration committee should include Company's independent directors, while remaining members should be appointed by board resolution. There should be not less than 3 members in total. One independent director should be elected as Chairman to convene at least 2 meetings per year. With due care, the committee should faithfully perform the following duties and present recommendations to the Board of Directors for discussion:

1.Establish and review regularly, performance assessment of the directors, supervisors, managers, and their policies, systems, standards and structure of the remuneration.

2.Regularly assess and establish remuneration for the directors, supervisors and managers.

(5)Fulfillment of social responsibility

Items	Status	Differences from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and the reasons therefor
<p>1.Implementation of internal governance</p> <p>(1)We established CSR policies or systems and reviewed the implementation status.</p> <p>(2)We established a specific/concurrent CSR function, implemented CSR tasks and reviewed the implementation status.</p> <p>(3)We organized regular training courses and promotion activities on corporate ethics for directors, supervisors and employees. We also combined the training with the employee performance evaluation system and established an effective and definite system of rewards and penalties.</p>	<p>(1)In 2011, we followed the sustainable development plan and, through the Corporate Social Responsibility (CSR) Committee, continued to promote CSR activities and regularly convened Steering Committee meetings, to review the promotional status and strategy of CSR.</p> <p>(2)In 2011, the development of CSR activities is fully strengthened in depth. The CSR Committee is reorganized. Under the Steering Committee headed by the President /CEO, five committees were established: the “Promotion Secretariat” , “Corporate Governance Committee” , “Employee Caring Committee” , “Environmental Protection and Energy Saving Committee” , “External Communications Committee” and “Social Caring Committee” , actively facing and controlling the CSR management benchmarks of the three aspects: economic, environmental and social.</p> <p>(3)In order to implement a corporate culture emphasizing good quality and maintain Company's image and enterprise ethics, the Company established the “Code of Dutiful Conduct “ for employees and the “Code of Ethical Conduct” for directors, supervisors and managers. In 2011, the “Enterprise Mission, Objective and Values” were revised, and the “Core Functions” and “Management Functions” were amended, requiring relevant staff to comply with them and including such rules into the employee annual performance review table. Any violation of a relevant rule will be subject to the rules for rewards and sanctions.</p>	<p>(1)No difference</p> <p>(2)No difference</p> <p>(3)No difference</p>
<p>2.Development of sustainable environment</p> <p>(1)We contributed to improving the utilization of all resources and used recycled material that brought minimum load to the environment.</p> <p>(2)We established a suitable environment management system according to the feature of the industry.</p> <p>(3)We set up a specific function or personnel to take the responsibility for the management of the environment.</p> <p>(4)We paid attention to the impact of the climate change on the operation of the company and established energy saving, carbon reduction and greenhouse gas minimization strategies.</p>	<p>(1)In terms of the manufacturing process, the concept of “maximizing energy resource” is introduced. Through the design of manufacturing process, the increase in efficiency and the recycling of raw materials, energy consumption required for production is minimized. We also successfully developed and produced new green products.</p> <p>(2)The Company continues to operate effectively, under the certifications of ISO 14001, OHSAS 18001 and TOSHMS environmental/safety/health management system. In 2011, the Company passed QC 080000 certification (hazardous material process flow management system).</p> <p>(3)The Company established dedicated environmental management organization in accordance with the law, with dedicated environmental management staff in charge of air pollution, waste water, waste and toxic materials.</p> <p>(4)Regarding greenhouse gas reduction planning, the Company supports the national reduction target and follows the relevant policies of the competent authority. In 2011, the Company passed 2005-2010 ISO 14064-1 certification (greenhouse gas emission verification) and is planning to pass ISO 14067 ( product carbon footprint ) and ISO14046 ( product water footprint ) certifications by the end of 2012. The Company established and continued to perform energy-saving and carbon reduction-related measures.</p>	<p>(1)No difference</p> <p>(2)No difference</p> <p>(3)No difference</p> <p>(4)No difference</p>

Items	Status	Differences from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and the reasons therefor
<p>3. Protection of social commonweal</p> <p>(1) We observed labor laws and regulations, protected legal interests of the employees, and established management system and procedure appropriately.</p> <p>(2) We provided the employees with safe and healthy working environment and carried out regular training courses regarding safety and health of the employees.</p> <p>(3) We established and published consumer interest policies and provided consumers with a transparent and effective complaint procedure regarding our product and service.</p> <p>(4) We cooperated with our suppliers to enhance CSR jointly.</p> <p>(5) We participated in the community development as well as charity and public welfare activities by commercial activities, donation in-kind, corporate volunteer service, and other free professional services.</p>	<p>(1) We established labor conditions and implemented related business according to the Labor Standards Act.</p> <p>(2) In addition to implementing related business according to applicable safety and health regulations, we went beyond the scope of the regulations and carried out regular health examination for employees every year.</p> <p>(3) The Company is a supplier of synthetic rubber material. It is not a producer of end-user consumer products. Relevant customer complaints are handled through the customer complaint procedure, and official feedback is provided.</p> <p>(4) In 2011, the Company carried out the QC 080000 (hazardous material process flow management system) project. Suppliers must provide raw materials and packages with concentrations of hazardous materials that are consistent with legislative requirements for the Company's production. Investigation of the suppliers' execution of CSR and the greenhouse gas project is also completed.</p> <p>(5) In 2011, the Company spent a total of NT \$ 12,000,000 in neighboring fees and community fees, subsidizing water and electricity fees for the community residents, school scholarships and school lunches. The Company also donated NT \$14,500,000 to the Red Cross in Japan to help with the earthquake disaster. In addition, the Company also regularly makes donations to public interest organizations to assist members of disadvantaged communities.</p> <p>In the future, the "Social Caring Committee" under the CSR Committee will actively reinforce the following:</p> <ol style="list-style-type: none"> <li>1. Sponsor and promote cultural, art and academic exchanges.</li> <li>2. Caring for disaster areas.</li> <li>3. Cooperation between companies and industries.</li> <li>4. Caring for disadvantaged communities.</li> <li>5. Green holidays or relevant official events.</li> </ol>	<p>(1) No difference</p> <p>(2) No difference</p> <p>(3) No difference</p> <p>(4) No difference</p> <p>(5) No difference</p>
<p>4. Enhancing the disclosure of information</p> <p>(1) We disclosed the information on the social responsibility with relevance and reliability.</p> <p>(2) We compiled CSR reports to disclose CSR implementation status.</p>	<p>(1) The Company's official website now includes a "CSR Section" for public disclosure of relevant information.</p> <p>(2) The 2011 Level B CSR report will be disclosed at the same time as the annual report for the shareholders meeting.</p>	<p>(1) No difference</p> <p>(2) No difference</p>

Items	Status	Differences from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and the reasons therefor
	<p>5. Where the company has established the CSR implementation policy according to the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies”, describe the difference between the actual implementation and the regulations of the Principle.</p> <p>The Company established the CSR Committee in 2010. In 2011, the Company fully strengthened the depth of CSR activities in accordance with the Corporate Social Responsibilities Best Practice Principles for Publicly Listed Companies. In 2011, the Company passed 2005-2010 ISO 14064-1 certification (greenhouse gas emission verification) and QC 080000 certification (hazardous material process flow management system). The Company plans to pass ISO 14067 (product carbon footprint) and ISO 14046 (product water footprint) certifications by the end of 2012.</p>	
	<p>6. Other important information that is helpful to understand the operation of CSR (e.g. the system, measure and their implementation that the company used for environmental protection, community participation, social contribution, social service, social commonweal, consumer's interests, human rights, safety and health, and other social reasonability activities):</p> <p>(1) Establishing the “Corporation Social Responsibility” mechanism and commencing its implementation in 2011.</p> <p>(2) Mass production for environment-friendly rubber is achieved in the 4<sup>th</sup> quarter of 2011. New Product: Solution Styrene Butadiene Rubber (SSBR) is used in tire manufacturing. It can reduce oil consumption and waste gas emission by cars, reducing the impact on the environment.</p> <p>(3) Participating in the Taiwan Responsible Care Association and Chemical Awareness and Emergency Response Association, Taiwan, fulfilling member obligations and ensuring the safety and health of the community/society.</p> <p>(4) The Manufacturing Process Safety Management Guidelines, Product Management Guidelines, Contractor Safety Management Guidelines, Distribution Management Guidelines, Waste Management and Reduction Management Guidelines and Emergency Reaction Management Guidelines are established based on the safety standards of Taiwan Responsible Caring Association. The established sub-committees of “Manufacturing Process Safety”, “Product Regulations and Rules”, “Contractor Safety”, “Distribution Safety”, “Energy Saving and Reduction”, “Emergency Reaction” and “Legislation and Discipline” continued to operate. Plant “Safety, Health, Environmental Protection and Green” policies are implemented with a reinforced “Technology, Equipment, Staff and Community” policy.</p> <p>(5) Environmental accounting was established in 2010 (including safety, health and environmental protection expense). Statistics of several environmental accounting expenses for 2010 and 2011 have also been completed for the purpose of management and continuous improvement in environmental safety and health.</p> <p>(6) The Company continued to purchase Mid-autumn Festival gift boxes from the Children Are Us Foundation to help disadvantaged communities.</p> <p>(7) Through the association of companies in the industrial sector, the Company continues to promote neighboring and community support development events.</p> <p>(8) The Company expanded. In April 2011, the Company acquired 100% of the shares of the US company Dexco Polymers. With the consolidation of high-level products and technology in the applied material product line, the Company improved its international competitiveness. On 8 November 2011, the Company signed a joint venture agreement with the CPC Corporation and the Fubon Financial Holding Venture Capital Corp. to jointly invest in a plant that produces C-5 product series, fully extending the product value of the C-5 industrial chain, making an important step in the Taiwanese high-quality petrochemical sector and the joint development of upstream/downstream industries.</p> <p>(9) In 2011, the TSRC (Shanghai) Industrial Co., Ltd., established a “Customer Service Center” and introduced the “Customer Relationship Management” system, perfecting its strategy of in-depth management of the Asia-Pacific market.</p>	

Items	Status	Differences from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies and the reasons therefor
<p>7. In 2011, the Company passed 2005-2010 ISO 14064-1 certification (greenhouse gas emission verification). The 2011 B CSR report will be disclosed at the same time as the annual report for the shareholders meeting. The 2011 CRS report will be disclosed during the 1<sup>st</sup> quarter of 2012. The Company also planned to pass ISO 14067 (product carbon footprint) and ISO14046 (product water footprint) certifications in 2012.</p>		

**(6) Fulfillment of operation in good faith and measures taken**

1. We took measures to ensure operation in good faith and establish effective accounting and internal control systems. External auditors and accountants carried out audits periodically in addition to the audit carried out by internal audit personnel according to relevant procedure.
2. Operation information was disclosed according to the principle of fulfillment in good faith.
3. Explicitly establishing the rules for execution of official duties to forbid offering and receiving bribes or other inappropriate interests.

**(7) Whether the Company defines any corporate governance principles and relevant rules-None.**

**(8) Other important information sufficient to enhance the corporate governance**

1. Advanced study of directors/supervisors

Job title	Name	Date of advanced study	Hosted by	Programs	Hours
Independent Director	Harry M. F. Huang	Apr. 28, 2011	Corporate Governance Association (CGA)	From Family Succession/Family Governance to Corporate Governance	3

2. Important information treatment procedure

For setting up a viable system for handling materiality and disclosure, the Company has instituted the “Procedure for Handling Materiality” and release for the review of the public. The scope covers the directors, supervisors, managers, employees and other parties who access to material information of the Company due to his/her identity, occupation, or control relation to the Company. In addition, education on applicable laws or related education and training programs are provided.

(9)Information about enforcement of internal control system

1.Declaration of Internal Control

**TSRC Corporation**

Declaration of Internal Control System

Date: March 14, 2012

TSRC Corporation has conducted internal audit in accordance with its Internal Control System covering the period from 2011, and hereby declares as follows:

1.The company acknowledges and understands that, the establishment, enforcement and preservation of internal control system is the responsibility of the Board and managers, and that the company has already established such system. The mission is to reasonably ensure the effect and efficiency of operation (including profitability, performance and security of assets), the reliability of financial reporting and the compliance with relevant legal rules.

2.There is limitation inherent to internal control system, no matter how perfect the design is. As such, effective internal control system may only reasonably ensure the achievement of the aforementioned goals. Further, the operation environment and situation may vary, and hence the effectiveness of the internal controls system. The internal control system of the company features the self-monitoring mechanism. Once identified, any shortcomings will be corrected immediately.

3.The company judges the effectiveness of the internal control system in design and enforcement in accordance with the “Criteria for the Establishment of Internal Control System of Public Offering Companies” (hereinafter referred to as “the Criteria” ) promulgated by the Securities and Futures Commission of the Ministry of Finance. The Criteria is instituted for judging the effectiveness of the design and enforcement of internal control system. There are five components of effective internal control as specified in the Criteria with which the procedure for effective internal control are composed by five elements, namely, 1.Control Environment, 2. Risk Evaluation, 3. Control Operation, 4. Information and Communication, and 5. Monitoring. Each of the elements in turn contains certain audit items, and shall be referred to the Criteria for detail.

4.The company has adopted the aforementioned internal control system for internal audit on the effectiveness of the design and enforcement of the internal control system.

5.Based on the aforementioned audit findings, the company holds that has reasonably preserved the achievement of the aforementioned goals within the aforementioned period of internal control (including the monitoring over the subsidiaries), including the effectiveness and efficiency in operation, reliability in financial reporting and compliance with relevant legal rules, and that the design and enforcement of internal control are effective.

6.This statement of declaration shall form an integral part of the annual report and prospectus on the company and will be announced. If there is any fraud, concealment and illegal practice discovered in the content of the aforementioned information, the company shall be liable to legal consequences under Article 20, Article 32, Article 171 and Article 174 of the Securities and Exchanges Act.

7.This statement of declaration has been approved by the Board on March 14, 2012 with presence of 9 directors at unanimous consent

TSRC Corporation  
Chairman: Shao Yu Wang  
Acting President: Wei-Hua Tu

2.Public accountants retained to review the internal control system: No

(10) Where any penalties have been imposed in accordance with the laws, or the company has taken disciplinary action against its in-house personnel for violations of the company's internal control regulations, please specify the principal problems and correction actions taken in 2011 and until the annual report being published: No

(11) the major resolutions made by shareholders' regular meetings and directors' meetings in 2011 and until the annual report being published.

**1. The important resolutions made by shareholders' regular meetings in 2010:**

- (1) Recognition of the Company's business report and financial statements for 2010;
- (2) Recognition of the allocation of earnings for 2009;
- (3) Approval of the that the non-competition restrictions imposed on the Company's director should be lifted.
- (4) Approved amendment to the Company's articles of association.
- (5) Approved the Company's issuance of new shares pursuant to conversion of profit into capital.

**2. Implementation of the resolutions made by shareholders' regular meetings:**

- (1) With respect to the allocation of earnings for 2010, the directors' meeting resolved that August 3, 2011 should be the ex-dividend record date and the cash dividends should and new share capital increase be allocated on August 25, 2011.

**3. Important resolutions made by directors' meetings:**

proposal (June 29, 2011) Shareholders' regular meeting

Resolved the recording date for the distribution of shareholder dividends.

Resolved the change of the accounting executive.

Resolved the issuance of overseas unsecured convertible corporate bonds.

proposal (August 24, 2011) Shareholders' regular meeting

Resolved the 2011 half-year financial report.

Resolved an increase of capital for a Mainland Chinese subsidiary.

proposal (October 26, 2011) Shareholders' regular meeting

Resolved to establish a Remuneration Committee and appoint committee members.

Resolved that the non-competition restrictions imposed on the Company's managers should be lifted.

Resolved to provide endorsements and guarantees for subsidiaries.

proposal (December 07, 2011) Shareholders' regular meeting

Resolved to pass to ensure that the case of resolution, a subsidiary of endorsement.

proposal (March 14, 2012) Shareholders' regular meeting

Resolved that the shareholders' regular meeting for 2012 should be called.

Resolved that allocation of earnings for 2011 should be approved.

Resolved to convert profit into capital increase and issuance of new shares.

Resolved to pass the financial statement for 2011.

(12) Whether any director or supervisor has shown dissent against any important resolution made by the Board of Directors, which is also included in a record or written statement in 2011 and until the annual report being published : None

(13) Resignation/dismissal of personnel related to financial statements in 2011 and until the annual report being published : None



#### IV. Information about public expenses of CPA

##### (1) Information about public expenses paid to certified public accountants and accounting firms

Unit: NT\$1,000

Name of the accounting firm	Name of the certified public accountant		Audited public expenses	Non-audited public expenses					Whether CPA's audit term covers the entire fiscal year?			Remarks
				System design	Industrial & commercial registration	Human resource	Other	Sub-total	Yes	No	Audit period	
KPMG Taiwan	Yang Mei Hsueh	Chen Ya Ling	5,197	0	55	0	578	633	✓		From Jan. 1, 2011 to Dec. 31, 2011	Non-audited public expenses for audit-others, primarily paid IFRS for the travel expenses

Unit: NT\$1,000

Escalation of remuneration		Project	Audited public expenses	Non-audited public expenses	Total
1	2,000,000 below		0	633	633
2	2,000,000 (inclusive of 2,000,000)-4,000,000		0	0	0
3	4,000,000 (inclusive of 4,000,000)-6,000,000		5,197	0	5,197
4	6,000,000 (inclusive of 6,000,000)-8,000,000		0	0	0
5	8,000,000 (inclusive of 8,000,000)-10,000,000		0	0	0
6	10,000,000 above		0	0	0

(2) The Corporation information about public expenses paid to certified public accountants and accounting firms and audit and the non-audit government expense related information the relational enterprise has not reached 1/4th audit government expense.-No.

(3) Because the Company did not replace the CPA in the last two years.-No.

(4) Do audited public expenses decrease by more than 15% compared with those in the previous year?-No.

#### V. Information about change of CPA-No.

VI. Chairman, president, or manager in charge of the company's finance or accounting who has within the previous year held a position at the accounting firm of a certified public accountant or any of its affiliated enterprises-No.



## VII. Information on equity of directors, supervisors, managers and shareholders holding more than 10% of the shares

Job title	Name	2010		February 28, 2011	
		Increase (decrease) in shares held	Increase (decrease) in pledged shares	Increase (decrease) in shares held	Increase (decrease) in pledged shares
Chairman	Shao Yu Wang	-	-	-	-
Director	Wei Dah Development Co., Ltd.	2,239,708	-	-	-
Corporate representative of the director	J. K. Loh	-	-	-	-
Corporate representative of the director	Charles Huang	-	-	-	-
Director	Hao Ran Foundation Statutory	4,376,034	-	-	-
Corporate representative of the director	Nita Ing	(11,131,693)	-	-	-
Corporate representative of the director	Tzu Wei Lee	82	-	-	-
Corporate representative of the director	Shao Yu Wang	-	-	-	-
Corporate representative of the director	Liang Chang	-	-	-	-
Director	Ching Shan Zhen Corporation	52,082	-	-	-
Corporate representative of the director	D. Otto Cheng	32,924	-	-	-
Independent Director	Harry M. F. Huang	-	-	-	-
Independent Director	Ting Kai (Peter) Wu	-	-	-	-
Supervisor	Dragony Investment Corporation	1,987,676	-	-	-
Corporate representative of the supervisor	Dragon Tai	-	-	-	-
Supervisor	Miles Hsieh	-	-	-	-
President	Wei-Hua Tu	(4,340)	-	(20,000)	-
Vice President	Gino C. Y. Chen	1,118	-	-	-
Vice President	Hendrick Lam	-	-	-	-
Vice President	John Chen	-	-	-	-
Vice President	Frank J. Chen	-	-	-	-
Asst. Vice President	Chin-Chang Ting	76	-	-	-
Asst. Vice President	Kuo Huang-Cheng	52	-	-	-
Asst. Vice President	Nick Lin	(3,762)	-	-	-
Asst. Vice President	R. L. Chiu	(3,839)	-	-	-
Asst. Vice President	Eddy Chao	213	-	-	-
Asst. Vice President	Lee Pei (Lee) Chou	600	-	-	-
Asst. Vice President	Justice Huang	1,042	-	-	-
Asst. Vice President	Alice Yuan	20	-	-	-
Asst. Vice President	Tsung-Han Lin	238	-	-	-
Asst. Vice President	Cheong Kow	-	-	-	-
Asst. Vice President	Jeff Tsai	-	-	-	-

Note: The trading counterparts to whom the equity of the said directors, supervisors, managers and major shareholders is transferred and pledged are not related parties; therefore, no information about equity transfer and pledge may be disclosed.

**VIII.Information about top ten shareholders being the related party as defined in Statement of Financial Accounting Standards No. 6**

July 20, 2011

Name	Share(s) held personally		Shares currently held by their spouses and children of minor age		Shares held in another person's name		Names and relationship of any of the top ten shareholders and their spouses or relatives of 2 <sup>nd</sup> degree of relationship who are related parties defined in the Statement of Financial Accounting Standard No. 6		Remarks
	Share(s)	Stake	Share(s)	Stake	Share(s)	Stake	Name/name	Relationship	
Panama Banco industrial company	60,194,301	8.4%	0	-	0	-	N0	N0	
Hao Ran Foundation Statutory	52,096,381	7.3%	0	-	0	-	Nita Ing Tso-ho Ing	Chairman of the Foundation Director of the Foundation	
Hao Ran Foundation Statutory Chairman: Shao Yu Wang	0	-	330,000	0.1%	0	-	N0	N0	
Hao Ran Foundation Statutory Chairman:Liang Chang	0	-	0	-	0	-	N0	N0	
Hao Ran Foundation Statutory Chairman:Nita Ing	12,324,226	1.7%	0	-	0	-	Nita Ing Tso-ho Ing	Chairman of the Foundation Director of the Foundation	
Hao Ran Foundation Statutory Chairman:Tzu Wei Lee	825	0	0	-	0	-	N0	N0	
Tso-ho Ing	29,937,787	4.2%	0	-	0	-	Hao Ran foundation Statutory Nita Ing	Director of the Foundation Relative within 2 <sup>nd</sup> degree of relationship	
Metacity Development Corporation Chairman: Zeng Wang Mei-Xiang	26,347,536	3.7%	0	-	0	-	N0	N0	
Wei Dah Development Co., Ltd.	24,636,796	3.4%	0	-	0	-	N0	N0	
Wei Dah Development Co., Ltd. Chairman: Charles Huang	0	-	0	-	0	-	N0	N0	
Wei Dah Development Co., Ltd. Chairman: J. K. Loh	0	-	0	-	0	-	N0	N0	
Dragony Investment Corporation	21,864,438	3.1%	0	-	0	-	N0	N0	
Dragony Investment Corporation Chairman: Dragon Tai	0	-	0	-	0	-	N0	N0	
Public Service Pension Fund Management Board	14,874,200	2.1%	0	-	0	-	N0	N0	
Cathay life insurance Co. Ltd. Chairman: Cai Hong Tu	13,512,400	1.9%	0	-	0	-	N0	N0	
Nita Ing	12,324,226	1.7%	0	-	0	-	Hao Ran foundation Statutory Tso-ho Ing	Chairman of the Foundation Relative within 2 <sup>nd</sup> degree of relationship	
HSBC & JP Morgan	10,283,490	1.4%	0	-	0	-	N0	N0	

## IX. Shares and shareholdings of the Company, Directors, Supervisors, Managerial Staff, and Direct and Indirect Investments of the Company in Affiliated Companies

Reinvested enterprises (Note 1)	Investment by the company		Investment by directors, supervisors, managers and enterprises directly or indirectly controlled by the company		Total investment	
	Share(s)	Stake	Share(s)	Stake	Share(s)	Stake
Thai Synthetic Rubbers Co., Ltd.	599,999	5.42%	837,552	7.57%	1,437,551	12.99%
Taiwan High Speed Rail Corporation	50,000,000	0.77%	4,490,147	0.07%	54,470,147	0.84%
Wei Dah Investment Co., Ltd	21,600,000	18.00%	76,800,000	64.00%	98,400,000	82.00%
Trimurti Holding Corporation	86,920,000	100.00%	-	-	86,920,000	100.00%
Hardison International Corporation	4,419,305	100.00%	-	-	4,419,305	100.00%
Dymas Corporation	1,287,624	19.48%	5,321,946	80.52%	6,609,570	100.00%
Evergreen Development Corp.	12,148,000	2.97%	12,823,245	3.14%	24,971,245	6.11%
Hsin-Yung Enterprise Corp.	5,657,000	3.90%	1,256,652	0.87%	6,913,652	4.77%

Note 1: the company's long-term investment

## **Status of Fundraising**

## Status of Fundraising

### I. Company's capital and shares

#### (1) Source of capital and types of shares

March 22, 2012

Year/ month	Issue price (NT\$)	Authorized stock capital		Paid-in capital		Remarks		
		Shares(s) (1,000 shares)	Amount (NT\$1,000)	Shares(s) (1,000 shares)	Amount (NT\$1,000)	Source of stock capital	Property other than cash offset against capital	Other
Nov 1973	10	20,000	200,000	5,100	51,000	Incorporation of company		
Jun 1974	10	20,000	200,000	13,200	132,000	Increase of 51,000,000 NTD	Technical cooperation remuneration transferred to capital stock 30,000,000 NTD	
Feb 1975	10	20,000	200,000	20,000	200,000	Increase of 61,928,000 NTD	Technical cooperation remuneration transferred to capital stock 6,072,000 NTD	
Nov 1975	10	40,000	400,000	30,000	300,000	Increase of 100,000,000 NTD		
Dec 1975	10	40,000	400,000	40,000	400,000	Increase of 100,000,000 NTD		
Jul 1976	10	60,000	600,000	50,000	500,000	Increase of 100,000,000 NTD		
Apr 1977	10	60,000	600,000	54,000	540,000	Increase of 40,000,000 NTD		
Jul 1980	10	110,000	1,100,000	73,238	732,380	14,000,000 NTD transferred from earnings 52,380,000 NTD transferred from capital		
Sep 1981	10	110,000	1,100,000	92,300	923,000	Increase of 16,980,000NTD 173,640,000 NTD transferred from earnings		Issue date: May 17, 1981
Apr 1982	10	120,000	1,200,000	116,000	1,160,000	Increase of 135,470,000 NTD 101,530,000 NTD transferred from capital		Listed date: September 25, 1982
Oct 1983	10	121,800	1,218,000	121,800	1,218,000	58,000,000 NTD transferred from capital		
Sep 1984	10	145,000	1,450,000	127,890	1,278,900	60,900,000 NTD transferred from capital		
Aug 1985	10	145,000	1,450,000	140,679	1,406,790	63,945,000 NTD transferred from earnings 63,945,000 NTD transferred from capital		
Sep 1986	10	164,200	1,642,000	164,200	1,642,000	Increase of 80,463,000NTD 119,577,000 NTD transferred from earnings 35,170,000 NTD transferred from capital		
Jul 1987	10	201,966	2,019,660	201,966	2,019,660	344,820,000 NTD transferred from earnings 32,840,000 NTD transferred from capital		
Aug 1988	10	238,319	2,383,199	238,319	2,383,199	363,539,000 NTD transferred from earnings		
Aug 1989	10	274,068	2,740,679	274,068	2,740,679	357,480,000 NTD transferred from earnings		
Oct 1991	10	306,956	3,069,560	306,956	3,069,560	328,881,000 NTD transferred from earnings		
Aug 1995	10	550,000	5,500,000	369,700	3,697,000	627,440,000 NTD transferred from earnings		
Jul 1997	10	550,000	5,500,000	502,900	5,029,000	1,332,000,000 NTD transferred from earnings		
Jul 1998	10	750,000	7,500,000	580,487	5,804,870	775,870,000 NTD transferred from earnings		Authorized stock capital includes convertible cor- porate bonds totaling 10 million shares
Jul 1999	10	750,000	7,500,000	609,511	6,095,114	290,244,000 NTD transferred from earnings		June 29, 1999 Approved by the official letter under (88) Tai-Tsai-Cheng (1) No. 59287

Year/ month	Issue price (NT\$)	Authorized stock capital		Paid-in capital		Remarks		
		Shares(s) (1,000 shares)	Amount (NT\$1,000)	Shares(s) (1,000 shares)	Amount (NT\$1,000)	Source of stock capital	Property other than cash offset against capital	Other
Jun 2006	10	750,000	7,500,000	649,909	6,499,095	403,981,000 NTD transferred from earnings		Approval by letter under Chin-Kuan-Cheng-Yi-Tze No. 0950124967 dated June 20, 2006
Jun 2011	10	900,000	9,000,000	714,900	7,149,004	649,909,000 NTD transferred from earnings		Approval by letter under Chin-Kuan-Cheng-Yi-Tze No. 1000028593 dated June 22, 2011

March 22, 2012

Type of shares	Authorized stock capital (shares)			Remarks
	Listed Shares	Non-listed shares	Total	
Common stocks	714,900,415	185,099,585	900,000,000	Non-listed shares include convertible corporate bonds totaling 100,000,000 shares
Preferred stocks	-	-	-	-

Information related to general report system-not applicable

## (2) Shareholders' structure

July 20, 2011

Quantity	Shareholder's Structure					
	Government Agencies	Financial Institutions	Other juridical persons	Individual	Foreign Institutions & Natural Persons	Total
Number of persons	11	32	161	49,104	432	49,740
Share(s)	29,316,393	30,731,668	177,697,092	179,308,669	297,846,593	714,900,415
Stake(%)	4.10	4.30	24.85	25.08	41.67	100

**(3)Equity diffusion**

Par value NT\$10/ July 20, 2011

Range of shares held	Number of shareholders	Shares held	Stake (%)
1-999	25,336	7,796,371	1.09
1,000-5,000	16,826	35,246,903	4.93
5,001-10,000	3,609	23,607,065	3.30
10,001- 15,000	1,639	19,327,420	2.70
15,001- 20,000	513	8,854,275	1.24
20,001- 30,000	635	15,269,239	2.14
30,001- 50,000	445	16,940,830	2.37
50,001- 100,000	303	20,654,873	2.89
100,001-200,000	171	23,732,699	3.32
200,001-400,000	110	30,558,203	4.27
400,001-600,000	44	22,022,561	3.08
600,001-800,000	21	14,314,699	2.00
800,001-1,000,000	10	9,250,305	1.29
1,000,001 above	78	467,324,972	65.37
Total	49,740	714,900,415	100.00

Preferred stocks shares- The company does not issue preferred stocks shares.

**(4)Major shareholders**

July 20, 2011

Shareholders	Shares	Shares held	Stake (%)
Panama Banco industrial company		60,194,301	8.4
Hao Ran foundation Statutory		52,096,381	7.3
Tso-ho Ing		29,937,787	4.2
Metacity Development Corproation		26,347,536	3.7
Wei Dah Development Co., Ltd.		24,636,796	3.4
Dragony Investment Corporation		21,864,438	3.1
Public Service Pension Fund Management Board		14,874,200	2.1
Cathay life insurance Co. Ltd.		13,512,400	1.9
Nita Ing		12,324,226	1.7
HSBC & JP Morgan		10,283,490	1.4

**(5)Market price per share, net worth per share, earnings per share, dividends per share and related information**

Unit: NT

Item		Fiscal year	2010	2009	February 29, 2012
Market price per share	Maximum		91.00	68.50	81.70
	Minimum		57.60	36.10	72.10
	Average		76.57	47.58	76.56
Net worth per share	Before distribution		24.01	19.95	-
	After distribution		(註1)	16.45	-
Earnings per share	Weighted average share(s)		714,900,415	649,909,469	714,900,415
	EPS	Before adjustment	8.03	5.05	-
		After adjustment	-	4.59	-
Dividends per share	Cash dividend (Note 1)		5.00	3.50	-
	Dividends (Note 1)	Dividend distributed from earnings	1.00	1.00	-
		Dividend distributed from additional paid-in capital	-	-	-
	Cumulative outstanding dividends (Note 2)		-	-	-
Cash dividend yield (note 5)	Price-earnings (P/E) ratio (Note 3)		9.54	9.42	-
	Price-dividend (P/D) ratio (Note 4)		15.31	13.59	-
	Cash dividend yield (note 5)		6.5%	7.4%	-

Note 1: The dividends for 2010 have not yet resolved by the shareholders' meeting.

Note 2: Requirements for issue of securities provide that the unappropriated dividends in the current year may be cumulative and distributed in the year of earnings, and only the outstanding cumulative dividends in the current year shall be disclosed.

Note 3: P/E ratio = average closing price per share / EPS

Note 4: P/D ratio = average closing price per share / Cash dividend per share

Note 5: Cash dividend yield = cash dividend per share / average closing price per share

**(6)Dividend policy and implementation status**

1. Dividend policy

The business operated by the company has matured and been stable, and the company is orienting itself towards globalization and diversification. In order to cope with the company's long-term programming to ensure the perpetual growth of the enterprise, the company sets the dividend policy as following: the profit of annual final account, if any, shall deduct the tax and make up the loss in past years, then withdraw 10% as legal reserve fund. The rest shall be distributed or reserved as special reserve pursuant to the Securities and Exchange Act. The distributable earnings shall be the balance, if any, plus the unappropriated earnings in the previous period, which shall be distributed in the following manners:

- 1) 97% for shareholders' dividend
- 2) 1% for directors'/supervisors' remuneration
- 3) 2% for employees' bonus

The cash dividend distributed, if any, shall not less than 20%. Share dividend shall not exceed 80%. If the shareholders' dividends are less than 0.5 per share based on the above calculation, the Company may keep the distributable profit without distribution.

The proposal for the said distribution of earning shall be submitted by the board of directors to the shareholders' meeting for ratification.

The rules for directors'/supervisors' remuneration and employees' bonus shall be subject to the resolution of the directors' meeting.

2. Distribution of dividends scheduled at the shareholders' regular meeting

Cash dividends to be distributed are NT\$5.0 per share and surplus to be distributed is NT\$1.0 per share.



**(7)Effect upon business performance and EPS of stock dividend distribution plans drafted at the shareholders' regular meeting:Not applicable.**

**(8)Employees' bonus and directors'/supervisors' remuneration**

1.Percentage or scope of employees' bonus and directors'/supervisors' remuneration referred to in the company's articles of incorporation Please refer to the dividend policy.

2.The Company determined to pay cash dividends for fiscal year 2011. The basis of, and the actual estimation of employee bonus, remuneration to directors and supervisors are in compliance with the Articles of Incorporation. There is no difference in the amount between the actual and the projected payment.

3.Information on resolution of the Board on payout of employee bonus:

(1) The Company shall pay NT\$88,441,000 to employees as cash dividends, NT\$44,221,000 to directors and supervisors as remunerations for fiscal year 2010, the stated amount is identical with the actual amount paid.

(2) The amount of stock dividends for the employees and its proportion to corporate earnings in current period and to total employee bonus under consideration the Company has no plan for paying stock dividends to employees, this provision of not applicable.

(3) The estimated EPS net of the payout of employee bonus, remunerations to directors and supervisors under consideration not applicable, the Company has no plan to pay out employee stock dividends.

3.Employees' bonus and directors'/supervisors' remuneration distributed from earnings of the previous year:

Unit: NT\$

	Distribution after shareholders' meeting	Distribution plan drafted at the directors' meeting	Variance
Employees' bonus	60,300,879	60,300,879	0
Director'/supervisors' remuneration	30,150,439	30,150,439	0

**(9)Repurchase of the company's shares: None**

**II. Corporate bonds**

**III. Preferred shares - none**

**V. Overseas depository receipts - none**

**VI. Employee stock option certificates - none**

**VI. New shares issued upon merger or acquisition of other company's shares - none**

**VII. Implementation of funds utilization plans**

1. Description of plans - Article 18 of the "Criteria Governing Information to be published in Annual Reports of Public Companies" is not applicable.

2. Status of implementation - Article 18 of the "Criteria Governing Information to be published in Annual Reports of Public Companies" is not applicable.

# **Overview of business operations**

## Description of businesses **Overview of business operations**

### I. Description of businesses

#### (1) Business Scope

##### 1. Major business and product lines:

The company is engaged in the production and sales of synthetic rubber products.

##### 2. Product Portfolio

Unit: NT\$1,000

Items	Revenue in 2011	Percentage of Total Turnover %
SBR、BR、TPE	20,301,353	98.49%
TPR	213,429	1.04%
Other (trading, etc.)	97,376	0.47%
Total	20,612,158	100.00%

#### 3. New developments

Item
(1) High-performance and energy-saving SSBR for the tire industry
(2) Improve product quality through the integration of Dexco's manufacturing technologies
(3) Green and environmentally-friendly rubber materials
(4) High-value energy/optoelectronic industry materials
(5) Heat-resistant TPE materials and downstream applications

#### (2) Industry Overview:

Although China has been ranked number one in global automobile sales for three consecutive years, the annual growth rate has decreased dramatically to 2.5% (46% in 2009, 32% in 2010). The reason for the slowed growth is mostly due to the cancellation of subsidized automobile purchase policies from the Chinese government. On the other hand, the European debt crisis and the Japanese tsunami continue to affect the automobile market in advanced countries and regions. With the exception of United States and Germany, other modern countries generally see decreasing growth trends.

The international automobile market showed average performance for the year of 2011. Although the basic demands for tires are stable, raw material prices fluctuated heavily throughout the year due to opportunistic trading. The prices for butadiene (BD), a principle ingredient for synthetic rubber, surged from \$2,060 USD/MT in January to \$4,200 USD/MT in July, then dropped to \$1,550 USD/MT in November due to European debt crisis. Pricing fluctuations vary between 100% and -63%, heavily affecting the purchasing behaviors of both upstream and downstream buyers. TSRC was able to acquire significant portions of raw materials at lower costs in the beginning of the year, creating record highs for profits, due to favorable market demands. During the 3rd quarter, when raw material prices were high, we took steps of reducing raw materials procurement, annual stoppages and reductions in activation, to successfully avoid the risk of price-drop loss for high inventory in the 4th quarter, when the price of the raw materials dropped significantly. The profit per share during the year reached a historical high.

Our thermoplastic elastomers (TPE) business encountered an increase in global SBC demands, in 2011. The strong demands for SEBS in the first half of 2011 supported its sales price, while stable supply of SBS and SIS to key account customers helped assure that overall annual sales target has been met.

In the recent years, TPR has gradually replaced PVC, which was considered a pollutant thus restricted imports by European countries. TPR's characteristics include non-toxicity, low pollution, and environmentally friendly. Based on a principle of extended producer responsibility, TPR is now widely used in industries such as non-PVC electrical wires, products for children, personal care, foam footwear and tool grips.

### (3) Overview of technology and R&D

#### 1.R&D expenses

Unit: NT\$1,000

Fiscal year	2011
R&D expenses	255,519

#### 2.Successfully developed technology or products

Item	Result
Patents	Awarded with 9 patents and filed 5 patent applications
Alliance project of environment-friendly, energy saving tire materials and application research and development	This alliance was supported and subsidized by the Ministry of Economic Affairs. Several new specifications of SSBR were successfully developed and verified by alliance members, turning into one of the highly promoted products.
NBR Development	Development is completed, commercialization to start this year.
Manufacturing process technology integration:	Technical integration with Dexco's manufacturing process technologies to enhance TPE product quality.

### (4) Long-term and short-term business development plans

In response to the increasing awareness of Corporation Social Responsibility (CSR), we remain focused on the development of high value-added products and technologies with advanced environment-friendly processes. The purpose of this R&D orientation is to ensure that we can meet the requirements of customers with our products and services, to provide solutions for our customers regarding rubber applications, to create a win-win scenario. Business development plans are described below:

#### Long-term plans:

- 1.Continue to develop new process, equipment, and raw material sources to reduce production and investment costs;
- 2.Continue to improve processing technology by exchanging ideas with the academic sector and customers, to create additional value;
- 3.Continue to enhance technical service capability, to further explore industry applications;
- 4.Continue to review business procedures and promote a procedure improvement plan research;
- 5.Continue to keep track the changes in upstream and downstream sectors of the rubber industry world-wide, and the needs of the customers for seeking the development of new products or opportunity of new markets
- 6.Maximize resource allocation internally and externally, improving the weight of sales and profitability of innovative products.
- 7.Combine TSRC's research and development team and that of the customers and develop high-quality, innovative products together with customers.
- 8.For TPE, continue to integrate global business and marketing teams, to develop globally controlled operational results.
- 9.For TPE, provide complete customer solutions and fully satisfy customer and market demands.
- 10.For TPR, focus on downstream applications, extending terminal products to shorten the supply chain and increase product added value and profit.
- 11.Through the development of TPR research, technical platform development, and continuous innovation of products, to create a win-win scenario combining the development of target industry customers.

#### Short-term plans:

- 1.Build a global supply chain management system (SCM) to optimize the distribution of raw material and products between the parent company and subsidiary.
- 2.In response to the EU's promotion of environment-friendly tire logos, continuously develop and promote S-SBRs featuring low rolling resistance and evaluate investment opportunities in Nd-BR.
- 3.Development and promotion of high-oil resistant NBR rubber applicable to car components.
- 4.To respond to the completion and launch of the newly built E-SBR plant in India in 2012, we will keep developing local potential customers and meeting the requirements of key customers.
- 5.We will expand our global business territory steadily and assess the best investment opportunity for additional E-SBR capacity in merging nations.

6. Participate in large international tire and rubber expositions (such as ChinaPlas) to market SSBR materials for environment-friendly tire manufacturers.
7. Consolidate Dexco's customer group and promote the product worldwide.
8. Develop TPE product market differentiation and promote sales of high-profitability products.
9. Increase the rate of capacity utilization of compounding product materials.
10. Establish central procurement functions for compounding products, by leveraging new products and technologies.
11. Integration of compounding subsidiaries internal systems, to establish a sound supply-chain management standard

## II. Analysis of the market as well as production and marketing situation

### (1) Market Analysis

#### 1. Major product distribution areas

Unit: NT\$1,000/ton

Name of product	2011		Exported territories
	Sales volume	Sales amount	
SBR、BR、TPE	187,307	20,301,353	India, Japan, Vietnam, Mainland China
TPR	2,151	213,429	Japan, India, Mainland China, South East Asia, U.S.A.

#### 2. Market share:

SBR : Domestic sales volume percentage is 30%, representing a decrease of 1% from 2010. Domestic sales value percentage is 31%, representing a decrease of 1% from 2010. Overseas sales are concentrated in India, Japan, Vietnam, Mainland China and Thailand.

BR : Domestic sales volume percentage is 39%, representing an increase of 3% from 2010. Domestic sales value percentage is 40%, representing an increase of 4% from 2010. Overseas sales are concentrated in Japan, India, Mainland China, South East Asia and United States.

TPE : Domestic market demand is lower compared to others, at 8%, which is the same as in 2010. Overseas business represents 92%. Among overseas markets, Asia is the largest, representing 47%. Europe and the United States represent 45%. The U.S. plant Dexco acquired in 2011 mainly sells to Europe and the United States. It continues to serve main customers in the neighboring service area.

TPR : Domestic sports product business represents 15%. The China market represented the majority of the export market at 80%. For other export market, South East Asia represents 5%.

#### 3. Demand and supply conditions for the market in the future, and the market's potential growth

According to the estimate by the IRSG research organization (2011), the global demand for rubber in 2012 will be 27,200,000 tons, among which natural rubber will grow by 4.6% and synthetic rubber will grow by 5.5%. However, in the next 3 to 4 years, supply may exceed demand in the natural rubber market. The number of new companies for synthetic rubber has increased rapidly in Mainland China, creating strong competition. The ESBR and BR industries have faced the challenge of market saturation.

In the TPE product series, SBS still has more supply than demand. The profitability is limited. After the acquisition of U.S. plant Dexco in 2011, the sales volume of TPE increased significantly, meeting different market demands. The demand for SEBS products continues to grow, but currently the capacity is full. In 2012, the Company plans to complete the SEBS Mainland Nantong plant expansion, hoping to increase the market share.

#### 4. Niche for competition, and positive and negative factors for future development, and countermeasures

In recent years, TSRC has actively developed overseas sales locations, completing the Asian operational footprint through joint ventures throughout Mainland China in East Asia, Thailand in South East Asia and India in South Asia. The successful management experience of TSRC in the investment of the Shenhua Plant and the Nantong Plant in Nantong City, Jiangsu Province of Mainland China will attract joint venture opportunities from large specialty rubber operators for new products, such as the joint venture for NBR with the German Lanxess Group in Nantong City. Production is expected to start in 2012. In the future, we will continue to seek similar cooperation to cut into other niche rubber product markets, such as Nd-BR, or Functional S-SBR with better energy-saving effect in tires.

With regard to the trend of vertical consolidation of large upstream and downstream petrochemical plants, we may see a shortage of supply in BD, the main raw material, in the future. On the one hand, TSRC plans for the most suitable production locations through efficient resource allocations. On the other hand, the Company actively seeks international alliances with upstream petrochemical raw material suppliers to ensure a sufficient supply of raw materials. Possible investment opportunities in other areas will also be assessed carefully.

Many major TPE manufacturers are building new factories in China and continuously expand their capacities. The competition in the staple products such as footwear material, plasticization and asphalt modifier will be fierce. Ordinary TPE products are abundant and we will focus on the applications in the adhesive and plasticization fields and develop high value-added products, improve service quality for customers, enhance customized production and expand TPE application ranges to drive the sales volume of high value-added TPE products.

TPR products suffered from the dual impacts of the European debt crisis and the overseas relocations of the industry. The price of raw materials also increased significantly last year, and the difference is difficult to transfer to the customer. Many competitors grabbed orders with low prices, leading to significantly less purchase orders from Europe and the United States. In addition to improving manufacturing process productivity and lowering inventory volume in the future, the Company will also focus on the development of new markets in South East Asia and cooperation with target customers for new products under the new industry technology platform, in order to improve product profitability and sales volume.

## **(2) Important application and production process of major products**

### **Main product important use:**

SBR: tires, footwear, conveyor belts, rubber pipes, sport facilities, toys and other industrial products

BR: high-speed tires, footwear, sport facilities, polyethylene modifier (HIPS) and other industrial products

TPE: soles, adhesives, hot-melt rubber, plastic modifier, asphalt modifier and other industrial products

TPR: electronic wires and cables, consumable electronics, SEBS foaming, sport facilities, daily necessities, tooling materials, spare parts of motorcycles and automobiles, stationery, medical facilities, high-class footwear \ Film, Gasket industries; upgrading the scope of applications in the market, such as construction strips, refrigerator sealing strips, car door strips and revolutionary bicycles without inner-tubes

### **Outline of production process:**

SBR: Rubber is made through emulsification and polymerization. Soap liquid is taken as the medium. Macromolecular emulsion is made after polymerization of butadiene and styrene, and rubber is made (by solidification) after the addition of anti-oxidant (and also extender oil for oily rubber products), and then be dehydrated and packed.

BR: Rubber is made through polymerization of liquid. Macromolecular rubber liquid is made after polymerization of butadiene (BD), and be condensed into pallets, wash off ash content and then dehydrated and packed.

TPE: Rubber is made through polymerization of liquid. Rubber liquid is made after polymerization of butadiene and after being steamed to recall solvent, is dehydrated, cut and dried and then packed.

TPR: Preparation of hot-forming rubber and other stuff subject to specific percentage, and is then melted by mixer, cut by granule cutting machine, cooled, dehydrated, dried and packed.

## **(3) Supply of major raw materials**

The SBR, BR and TPE produced by the company are made by polymerization of butadiene and styrene.

1. Butadiene is primarily supplied by the CPC and FPCC, and imported, in the case of the short supply

2. Styrene is primarily supplied by the TSMC, FCFC and GPPC, and imported in part.

**(4) Customers accounting for 10 % or more of the company's total procurement (sales) amount in either of the most recent two fiscal years, the amounts sold to each, and the percentage of total procurement (sales) respectively, and reasons for increase/decrease**

**1. Major Suppliers with 10 % or more in procurement**

Unit: NT\$1,000

Item	2011				2010			
	Suppliers	Amount	Percentage of total net procurement (%)	Relation to the issuer	Suppliers	Amount	Percentage of total net procurement (%)	Relation to the issuer
1	CPC	5,958,266	37%	No	CPC	5,247,176	44%	No
2	FPCC	2,101,856	13%	No	FPCC	1,406,995	12%	No
3	Mitsubishi Corporation (Taiwan) Ltd.	1,916,490	12%	No	Mitsubishi Corporation (Taiwan) Ltd.	-	-	-
	Others	6,051,797	38%		Others	5,194,821	44%	
	Total	16,028,409	100%		Total	11,848,992	100%	
Causes	1. China Petroleum Corporation mainly supplied butadiene. Prices soared along with the price of the global market, so the purchase amount in 2011 was higher than 2010. 2. Formosa Petrochemical mainly supplied butadiene. Its price also soared, too and the purchase amount in 2011 was higher than 2010. 3. Total volume of butadiene purchased overseas increased, combined with higher prices. Purchasing amount from Mitsubishi is higher than 2010. 4. Thanks to a better economic situation compared to 2010, the market price of butadiene was higher than 2011 by about 53%.							

**2. Not applicable because we had no customers that occupied more than 10% of the total sales amount in the past two years.**

**(5) Output by product**

NT\$1,000/ton

Product	2010			2010		
	Capacity	Output	Output value	Capacity	Output	Output value
SBR、BR、TPE	210,000	193,882	16,571,305	210,000	191,104	12,675,355
TPR	8,000	2,270	190,955	8,000	4,806	265,366
Total	218,000	196,152	16,762,260	218,000	195,910	12,940,721

**(6) Sales by product**

NT\$1,000/ton

Product	2011				2010			
	Domestic		Export		Domestic		Export	
	Volume	Amount	Volume	Amount	Volume	Amount	Volume	Amount
SBR、BR、TPE	54,897	6,161,189	132,410	14,140,164	55,930	4,393,597	133,642	10,318,263
TPR	807	83,389	1,344	130,040	2,121	140,746	2,757	235,631
Others (trading, etc.)	-	3,236	-	94,140	-	102,253	-	73,749
Total	55,704	6,247,814	133,754	14,364,344	58,051	4,636,596	136,399	10,627,643

### III. Employees' information

Item		Fiscal year		
		2011	2010	February 29, 2012
Direct workers		283	284	283
Indirect workers		310	276	318
Total of employees		593 (persons)	560 (persons)	601 (persons)
Average age		43.6(years old)	43.7(years old)	43.7(years old)
Average seniorities		14.9(years)	15.4(years)	14.8(years)
Education level (%)	Ph.D.	2%	1%	2%
	Master	22%	19%	22%
	Bachelor	57%	58%	57%
	Senior High School	15%	17%	15%
	Below senior high school	4%	5%	4%

### IV. Expenses of environmental protection

#### (1) Loss for environmental pollution

	2011	February 29, 2012
Pollution (Type and degree)	Environmental Protection Bureau/Kaohsiung City Government spot-check of volatile organic compounds in the equipment components: compliance with laws and regulations.	No significant event took place.
Counterpart, or authority imposing fines	No	No
Compensation and fines	No	No
Other loss	No	No

#### (2) Countermeasures

1. Improvement actions to be taken	
1) Environmental protection capital expenditure to be spent in the following three years	
Pollution prevention equipments to be purchased, or contents of the expenditure	<ul style="list-style-type: none"> <li>· Improvement of production process waste gas processing system</li> <li>· Reduction use of solvent and release of volatile organic compounds</li> <li>· Survey and measurement of soil and underground water pollution</li> <li>· Repairing, maintenance and operation of pollution prevention equipments</li> <li>· Decrease and recycling of waste articles</li> <li>· Replacement of old boilers and chimneys</li> <li>· Energy saving, carbon reduction and decrease of greenhouse gas emission</li> </ul>
Estimated improvement	<ul style="list-style-type: none"> <li>· Comply with the requirements of environmental protection laws</li> <li>· Recycling</li> <li>· Maintenance of working environmental quality</li> <li>· Removal of raid actions</li> <li>· Decrease of residents' complaints</li> <li>· Reduction of the contribution to global warming</li> </ul>
Amount	Total investment amount at about NT\$354,000,000
2) Influence after improvement	
Influence on income	<ul style="list-style-type: none"> <li>· Decrease of the loss in production and fines resulting from objections and raids</li> </ul>
Influence on competitive status	<ul style="list-style-type: none"> <li>· Lowering of parking ratio and upgrading of productivity</li> </ul>



2.Parts where no countermeasures have been taken	
1)Causes	No
2)Status of pollution	No
3)Potential loss and compensation	No

## V.Labor relations

### **(1)Employees' beneficiary policies, on-the-job training, staff training and retirement, and the implementation status, and contracts between employer and employees, and policies to maintain the various employees' interests and rights:**

#### **1.Beneficiary policies, on-the-job training, staff training and retirement, and the implementation status:**

On welfare measures, through our operation of the Employee Welfare Committee, in addition to providing employees (Dragon Boat Festival, Mid-Autumn Festival, Chinese New Year), birthdays, Labour Day and other gifts outside, the “optional beneficiary policies” are implemented. According to the policies, the employees may combine the “benefits that comply” with their own requirement by means of their benefit credit tickets, including traveling and recreation activities, children's educational reimbursement, optional purchase of employees' welfare daily necessities purchase of movie tickets, and leisure requisites to fulfill the benefits substantially.

With respect to the insurance, the company provides employees with labor and health insurances pursuant to the laws, and also the group insurance free of charge, which is also applicable to employees' family members. With respect to labors' retirement, the company applies the Labor Standard Law and labors' retirement system to ensure the retired employees' interest and right.

The company also holds large-scale events for celebration of plants and year-end party to enhance the interaction with employees. The company also provides employees with cash gifts for marriage, birth and injury/sickness, Funeral establishes restaurants for employees and reimburses employees' meal expenses, and designates a dedicated nurse in the medical center, and also provides doctor's diagnosis and medical nursing services.

With respect to employees' training, the rules for employees' training are followed. The training plans are set based on the company's business policies, units' requirements and relevant laws/regulations, and the general knowledge, professional skill and management ability programs for the newly recruited and employees are handled according to the plans. Meanwhile, the “life-time learning” goal is fulfilled through such training modes as OJT, Off-JT and SD., including the training fees in 2011 in the amount of NT\$10,855 thousand. There were about 3,217 trainees. The average training fees per person were NT\$18,000 and the training hours per person were 33 hours.

#### **2.Contracts between employer and employees, and policies to maintain the various employees' interests and rights:**

Since the incorporation of the labor union, the Company has held meetings between employer and labor periodically, and negotiated for the laborers' interests and rights through formal meetings. In 2011, the Company held 3 meetings in total, Discussion about completing the improvement of meal boxes for employees on duty and one free breakfast provided by the Company to compensate staff working at midnight.

Furthermore, according to the Labor Standard Law and Accounting Handling Rules on Pension, the Company will contribute the pension fund to the employees' personal account in the Bank of Taiwan and Bureau of Labor Insurance on a monthly basis. Meanwhile, the “Reserve Labor Pension Fund Supervisory Commission” will hold meetings to review the utilization of pension funds periodically to protect the retired employees' interests and rights.

### **(2)No loss resulting from dispute over labors has been suffered by the company in 2011 and until February 29, 2012.**

#### **(3)The loss suffered due to labor dispute, and estimated amount to be incurred and response actions**

Since the company's incorporation with the union, the relationship between employees and the company has remained fair through the good interaction and communication between employees and the company. Therefore, no significant dispute over labors has occurred, let alone the loss thereof. Therefore, the company and employees will abide by the communication models to create a win-win situation when proceeding with communication, and there is no likelihood of any monetary loss resulting from dispute over labors.

## VI. Material contracts

Nature	Concerned party	Duration	Contents	Restrictive terms
Joint venture contract for BR	TPI Thailand, UBE Japan, Marubeni Corporation	Oct. 20, 1995 until termination of the cooperative relationship	Joint venture contract for establishment, production, sale and operation of the BR plant with a capacity of 50,000 MT/Yr. In Thailand	
Mid-term and long-term loan contract	Taiwan Cooperative Bank, Jhang Chun Branch	August 14, 2007 August 13, 2012	Loan in the amount of NT\$600,000,000	No appropriation of repaid amount.
Butadiene Rubber Joint Venture	UBE Japan, Marubeni Corporation	Oct. 10, 2006 until termination of the cooperative relationship	Joint Venture Contract for yearly production of 72,000 tons of Butadiene Rubber	
Technology License Agreement	TSRC (Jinan) Industrial Ltd.	July 1, 2008 December 31, 2020	License the TSRC (Jinan) Industrial Ltd. To apply the mixing production technology	
Thermoplastic elastomer technique license agreement	JSC VORONEZHSYNTHEZK AUCHUK	May 27, 2009 until 10 years after the official production termination	Technique license agreement for annual production of 50 thousand-ton thermoplastic elastomers	
Joint venture agreement for annual production of 120 thousand-ton styrene-butadiene (E-SBR) rubber.	Indian Oil, UBE Japan	Apr. 3, 2010 until termination of the cooperative relationship	Joint venture agreement for building, production, sale and operation of a styrene-butadiene (E-SBR) plant in India with a yearly capacity of 120 thousand tons	
Styrene-butadiene (E-SBR) technique license agreement	Indian Synthetic Rubber Limited	Sep. 1, 2010 until termination of the cooperative relationship	A license for India Synthetic Rubber Co., Ltd. to use styrene-butadiene (E-SBR) production technique.	
Shareholders Agreement	Lanxess Hong King Limited Lanxess AG	May 7, 2010 until termination of the cooperative relationship	An annual production of 30 thousand-ton acrylonitrile-butadiene rubber (NBR); an joint venture contract for facility construction, production, sale and operation in China	
Acrylonitrile-butadiene rubber (NBR) technique license agreement	Lanxess-TSRC(Nantong) Chemical Industrial Co., Ltd.	Dec. 1, 2010 until termination of the cooperative relationship	A license for Lanxess TSRC (Nantong) Chemical Industrial Co Ltd. to use acrylonitrile-butadiene rubber (NBR) production technique	
Share purchase agreement	Exxon Equity Holding Company, ExxonMobil Chemical Company, ExxonMobil Chemical SBC Investment LLC, The Dow Chemical Company, DW Dexco Investment LLC	Dec. 23, 2010 until The two sides agreed to termination	Acquiring 100% shares of Dexco Polymers Operating Company LLC and Dexco Polymers L.P.	

## **Overview of financial status**

## Overview of financial status

### I. Condensed balance sheet and income statement for the recent five years

#### (1) Condensed balance sheet

Unit: NT\$1,000

Fiscal year		Financial information for the recent five years				
		2011	2010	2009	2008	2007
Current assets		6,970,348	5,640,790	5,552,412	6,355,702	5,480,132
Funds and investment		11,605,591	7,650,768	6,408,934	5,863,406	7,119,633
Fixed assets		2,087,607	1,753,248	1,669,871	2,015,627	2,115,243
Intangible assets		71,442	34,536	-	-	-
Other assets		1,901,065	1,915,790	1,892,530	1,709,751	1,727,444
Total assets		22,636,053	16,995,132	15,523,747	15,944,486	16,442,452
Current liability	Before distribution	3,955,914	2,981,578	2,280,537	2,659,197	3,186,179
	After distribution	(Note)	5,256,261	4,360,247	4,478,944	6,134,221
Long-term liability		-	100,000	350,000	900,000	600,000
Other liability		1,512,689	954,884	764,922	446,012	936,293
Total liability	Before distribution	5,468,603	4,036,462	3,395,459	4,005,209	4,722,472
	After distribution	(Note)	6,311,145	5,475,169	5,824,956	7,670,514
Capital stock		7,149,004	6,499,095	6,499,095	6,499,095	6,499,095
Additional paid-in capital		69,003	69,003	69,003	69,003	70,583
Retained earnings	Before distribution	8,984,752	6,167,579	4,968,128	4,456,296	4,635,970
	After distribution	(Note)	3,242,987	2,888,418	2,636,549	1,687,927
Unrealized gain (loss) on financial products		-	5,980	5,468	(39,232)	94,453
Cumulative translation adjustment		1,002,365	257,903	579,328	951,184	509,434
Net loss not recognized as pension cost		(44,940)	(48,156)	-	(4,335)	(96,821)
Total shareholders' equity	Before distribution	17,167,450	12,958,670	12,128,288	11,939,277	11,719,980
	After distribution	(Note)	10,683,987	10,048,578	10,119,530	8,771,937

Note: The earnings in 2011 will be distributed subject to the resolution of the shareholders' meeting in 2012.

**(2)Condensed income statement**

Unit: NT\$1,000

Item	Fiscal year	Financial information for the recent five years				
		2011	2010	2009	2008	2007
Operating revenue		20,612,158	15,264,239	10,265,923	17,382,310	13,187,559
Gross profit		4,519,028	2,631,609	2,125,800	3,118,370	2,285,459
Operating profit/loss		3,331,817	1,747,421	1,485,292	2,292,302	1,412,650
Non-operating income		3,892,623	2,174,943	1,490,389	782,875	2,347,082
Non-operating expenses and loss		189,139	137,725	94,117	235,928	141,707
Gain (loss) before tax		7,035,301	3,784,639	2,881,564	2,839,249	3,618,025
Cumulative effect of changes in accounting principles		4,914	-	-	-	-
Gain (loss) in the current period		5,741,765	3,279,162	2,331,579	2,768,369	3,262,090
EPS (loss) (NT\$)(note)		8.03	4.59	3.26	3.87	4.56

Note:EPS (loss) is computed by income (loss) after tax divided by weighted average outstanding shares. The shares increased after earnings or additional paid-in capital transferred to capital should be computed retroactively.

**(3)CPA's name and auditing opinion**

Fiscal year	CPA's name	Auditing opinion
2011	Yang Mei Hsueh Chen Ya Ling	No reservation for amended version.
2010	Yang Mei Hsueh Chen Ya Ling	Unqualified opinion
2009	Chen Ya Ling Chang Huei-Chen	Unqualified opinion
2008	Chen Ya Ling Chang Huei-Chen	Unqualified opinion
2007	Yang Mei Hsueh Yu Ann Tien	Unqualified opinion

## II. Financial analysis for the recent five years

### (1) Financial analysis for the recent five years

Fiscal year		Financial analysis for the recent five years					
		2011	2010	2009	2008	2007	
Financial structure (%)	Debt ratio	24.16	23.75	21.87	25.12	28.72	
	Percentage of long-term funds in fixed assets	822.35	744.83	746.26	636.99	582.44	
Solvency %	Current ratio	176.20	189.19	243.47	239.01	172.00	
	Quick ratio	117.35	128.39	182.03	197.60	129.55	
	Interest Coverage ratio	363	205	105	31	40	
Operating performance	Receivables turnover (time)	8.20	8.03	5.15	8.10	6.89	
	Average number of days receivables outstanding	45	45	71	45	53	
	Inventory turnover (time)	7.66	7.77	6.00	10.67	7.69	
	Account payable turnover (time)	14.97	15.42	15.26	22.24	14.89	
	Average number days of sales	48	47	61	34	47	
	Fixed assets turnover (time)	9.87	8.71	6.15	8.62	6.23	
	Total assets turnover (time)	0.91	0.90	0.66	1.09	0.80	
Profitability	Return on assets (%)	29.06	20.26	14.95	17.53	21.65	
	Return on shareholders' equity (%)	38.12	26.14	19.38	23.40	29.51	
	Percentage in additional paid-in capital %	Operating income	46.61	26.89	22.85	37.24	21.74
		Income before tax	98.41	58.23	44.34	43.69	55.67
	Net profit ratio (%)	27.86	21.48	22.71	15.93	24.74	
	EPS(loss) (NT\$)(Note)	8.03	4.59	3.26	3.87	4.56	
Cash flow	Cash flow ratio (%)	60.01	54.09	96.10	125.83	87.47	
	Cash flow adequacy ratio (%)	92.50	77.74	102.26	99.89	103.77	
	Cash flow reinvestment ratio (%)	0.39	(2.21)	1.84	2.44	5.04	
Leverage	Operating leverage	1.99	4.57	2.49	2.39	2.77	
	Financial leverage	1.01	1.01	1.02	1.04	1.07	

1. The interest protection multiples increased due to increase of the pre-tax net profit and decrease of the interest cost.
2. Asset rate of return is increased due to an increase of net profit after tax of the year.
3. ROE increased due to the increase in post-tax profit this year.
4. Percentage of operating profit over paid-in capital is increased due to an increase of operating net profit of the year.
5. Percentage of net profit over paid-in capital is increased due to an increase of net profit before tax of the year.
6. Net profit ratio is increased due to a higher increase of net profit after tax compared to the increase of net sales of the year.
7. EPS increased due to the increase in operating revenue this year.
8. Cash flow ratio is increased due to an increase of cash flow from operating activities of the year.
9. Operating leverage is reduced due to an increase of operating profit of the year.

(Note): Profit (loss) per ordinary share is calculated based on net profit (loss) after tax, divided by the weighted average number of outstanding ordinary shares. Calculation will be adjusted retrospectively if the number of shares is increased due to conversion of profit or capital reserve into capital.

## (2)Financial analysis for the recent five years (consolidated)

Fiscal year		Financial analysis for the recent five years (consolidated)					
		2011	2010	2009	2008	2007	
Financial structure (%)	Debt ratio	46.31	39.53	37.07	38.87	33.30	
	Percentage of long-term funds in fixed assets	295.54	231.92	211.79	200.62	246.12	
Solvency %	Current ratio	198.28	174.21	193.34	203.30	234.81	
	Quick ratio	135	128	133	163	186	
	Interest Coverage ratio	52	33	21	12	34	
Operating performance	Receivables turnover (time)	8.06	8.28	5.88	10.45	8.94	
	Average number of days receivables outstanding	45	44	62	35	41	
	Inventory turnover (time)	7.69	8.32	5.59	10.43	8.75	
	Account payable turnover (time)	18.99	17.16	16.23	28.56	18.29	
	Average number days of sales	47	44	65	35	42	
	Fixed assets turnover (time)	6.31	5.25	2.90	3.61	3.96	
	Total assets turnover (time)	1.43	1.46	0.98	1.37	1.20	
Profitability	Return on assets (%)	24.05	17.77	13.17	15.31	22.61	
	Return on shareholders' equity (%)	41.72	27.90	20.34	22.72	32.49	
	Percentage in additional paid-in capital %	Operating income	144.08	77.40	57.06	60.91	66.26
		Income before tax	146.02	80.84	58.26	52.90	73.99
	Net profit ratio (%)	13.58	11.15	12.88	10.15	16.71	
Cash flow	EPS (loss) (NT\$)(Note)	8.03	4.59	3.26	3.87	4.56	
	Cash flow ratio (%)	50.63	43.05	53.17	72.77	109.41	
	Cash flow adequacy ratio (%)	80.62	77.93	83.82	85.25	117.14	
Leverage	Cash flow reinvestment ratio (%)	6.82	1.77	3.04	(0.26)	9.80	
	Operating leverage	1.75	4.26	1.85	7.23	1.93	
	Financial leverage	1.02	1.03	1.05	1.06	1.03	

- 1.Percentage of long-term funds over fixed assets is increased due to an increase of consolidated shareholders equity and long-term debt of the year.
- 2.The interest protection multiples increased due to the increase in combined pre-tax net profit.
- 3.The turnover rate of fixed assets increased due to the increase in combined operating revenue this year.
- 4.ROA increased due to the increase in combined post-tax net profit this year.
- 5.ROE increased due to the increase in combined post-tax profit this year.
- 6.The operating income/paid capital increased due to the increase in combined operating net profit.
- 7.he pre-tax income/paid capital increased due to the increase in combined operating revenue.
- 8.Net rate of return is increased due to a higher increase rate of net consolidated profit after tax over the increase of consolidated net sales of the year.
- 9.EPS increased due to the increase in combined operating revenue this year.
- 10.Cash flow rate is increased due to an increase of cash flow from consolidated operating activities of the year.
- 11.Operating leverage is reduced due to an increase of consolidated operating profit of the year.

(Note): Profit per ordinary share is calculated based on net profit after tax, divided by the weighted average number of outstanding ordinary shares. Calculation will be adjusted retrospectively if the number of shares is increased due to conversion of profit or capital reserve into capital.

**1. Financial structure:**

- 1) Debt ratio of liabilities in assets =  $\text{total liability} / \text{total assets}$
- 2) Percentage of long-term funds in fixed assets =  $(\text{net shareholders' equity} + \text{long-term liability}) / \text{net fixed assets}$

**2. Solvency:**

- 1) Current ratio =  $\text{current assets} / \text{current liability}$
- 2) Quick ratio =  $(\text{current assets} - \text{inventory} - \text{prepayment}) / \text{current liability}$
- 3) Interest Coverage ratio =  $\text{income tax and interest expenses net profit before tax} / \text{interest expenses in the current period}$

**3. Operating performance:**

- 1) Receivables (including account receivable and notes receivable resulting from operation) turnover =  $\text{Net sales} / \text{balance of average account receivable (including account receivable and notes receivable resulting from operation)}$
- 2) Average number of days receivable outstanding =  $365 / \text{Receivable turnover}$
- 3) Inventory turnover =  $\text{Sales cost} / \text{average inventory}$
- 4) Accounts payable (including accounts payable and notes payable resulting from operation) turnover =  $\text{Sales cost} / \text{balance of average account payable (including account payable and notes payable resulting from operation)}$
- 5) Average number days of sales =  $365 / \text{Inventory turnover}$
- 6) Fixed assets turnover =  $\text{Net sales} / \text{Net fixed assets}$
- 7) Total assets turnover =  $\text{Net sales} / \text{Total assets}$

**4. Profitability:**

- 1) Return on assets =  $(\text{Income (loss) after tax} + \text{Interest expenses} \times (1 - \text{tax ratio})) / \text{Average total assets}$
- 2) Return on shareholders' equity =  $\text{Income (loss) after tax} / \text{Net average shareholders' equity}$
- 3) Net profit ratio =  $\text{Income (loss) after tax} / \text{Net sales}$
- 4) EPS =  $(\text{Net profit after tax} - \text{Dividend of special stocks}) / \text{Weighted average issued stocks}$

**5. Cash flow:**

- 1) Cash flow ratio =  $\text{Net cash flow from operating activities} / \text{Current liability}$
- 2) Net cash flow adequacy ratio =  $\text{Net cash flow from operating activities for the most recent five years} / \text{for the most recent five years (capital expenditure} + \text{Increase in inventory} + \text{Cash dividend)}$
- 3) Cash reinvestment ratio =  $(\text{Net cash flow from operating activities} - \text{Cash dividend}) / (\text{Gross fixed assets} + \text{Long-term investment} + \text{Other assets} + \text{Working capital})$

**6. Leverage:**

- 1) Operating leverage =  $(\text{Net operating revenue} - \text{Changed operating costs and expenses}) / \text{Operating income}$
- 2) Financial leverage =  $\text{Operating income} / (\text{Operating income} - \text{Interest expenses})$



### III. Supervisor's Audit report on the financial statement for the recent years

This report is to certify that the financial statement 2011 prepared by the Board as audited and certified by KPMG, as well as the business report and proposal for distribution of earnings, complies with Article 219 of the Company Act.

To:

Annual Shareholders' Meeting 2012

TSRC Corporation

Supervisor: Dragoon Investment Corporation

Representative: Dragon Tai

Supervisor: Miles Hsieh

Date: March 21, 2012

## IV. Financial statement

### Independent Auditors' Report

#### The Board of Directors

#### TSRC Corporation:

We have audited the balance sheets of TSRC Corporation (the Corporation) as of December 31, 2011 and 2010, and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the “Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants” and auditing standards generally accepted in the Republic of China. Those regulations and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentations. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial positions of the Corporation as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with the “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and accounting principles generally accepted in the Republic of China.

The Corporation changed its method of valuing inventory commencing from January 1, 2011 and adopted SFAS No.34 “Financial Instruments: Recognition and Measurement” recently revised, which amended the valuation of accounts receivable. The impact of these changes to net income and earnings per share for the year ended December 31, 2011, was discussed in note (3) of notes to financial statements.

We have also audited the consolidated financial statements of the Corporation and subsidiaries for the years ended December 31, 2011 and 2010. We have issued an independent auditors' report with a modified unqualified and unqualified opinion on those consolidated financial statements, respectively.

Taipei, Taiwan (the Republic of China)

March 14, 2012

The accompanying financial statements are intended only to present the financial positions, results of operations and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

**TSRC CORPORATION**  
**Balance Sheet**  
**December 31, 2011 and 2008**  
(expressed in thousands of New Taiwan dollar)

Unit: NT\$1,000

Assets	Dec.31, 2011		Dec.31, 2010	
	Amount	%	Amount	%
<b>Current assets:</b>				
Cash and cash equivalents (note 4(a))	\$ 1,432,954	6	1,504,221	9
Available-for-sale financial assets – current (note 4(b))	–	–	81,779	–
Notes receivable (note 4(c))	8,138	–	15,032	–
Accounts receivable (note 4(c))	2,876,356	13	1,992,412	12
Accounts receivable – related parties (notes 4(c) and 5)	96,796	–	23,812	–
Other financial assets – current (note 5)	135,959	1	127,315	1
Inventories (note 4(d))	2,308,278	10	1,762,491	10
Prepayments and other current assets (notes 4(n))	111,867	1	133,728	1
<b>Total current assets</b>	<b>6,970,348</b>	<b>31</b>	<b>5,640,790</b>	<b>33</b>
<b>Funds and investments :</b>				
Financial assets carried at cost – noncurrent (note 4(b))	1,083,390	5	1,227,390	7
Investments accounted for by the equity method (notes 4(e) and 5)	10,517,943	46	6,420,033	38
<b>Total funds and investments</b>	<b>11,601,333</b>	<b>51</b>	<b>7,647,423</b>	<b>45</b>
<b>Other financial assets – noncurrent (note 5)</b>	<b>4,258</b>	<b>–</b>	<b>3,345</b>	<b>–</b>
<b>Property, plant and equipment (notes 4(f), 6 and 7):</b>				
Costs:				
Land	286,262	1	286,262	2
Land improvements	54,204	–	54,204	–
Buildings	1,095,607	5	1,088,246	6
Machinery and equipment	6,590,357	30	6,568,605	39
Furniture and fixtures	63,543	–	57,628	–
Leased assets	94,596	–	94,596	–
Revaluation increment	434,913	2	434,913	3
Total cost and revaluation increment	8,619,482	38	8,584,454	50
Less: accumulated depreciation	7,053,669	31	7,025,754	41
Construction in progress and prepayments for machinery and equipment	521,794	2	194,548	1
<b>Net property, plant and equipment</b>	<b>2,087,607</b>	<b>9</b>	<b>1,753,248</b>	<b>10</b>
<b>Intangible assets</b>				
Software (note 4(g))	45,024	–	2,833	–
Deferred pension cost (note 4(l))	26,418	–	31,703	–
<b>Total intangible assets</b>	<b>71,442</b>	<b>–</b>	<b>34,536</b>	<b>–</b>
<b>Other assets:</b>				
Rental assets (notes 4(f) and 6)	1,780,844	8	1,795,569	11
Idle assets (notes 4(h) and 6)	120,221	1	120,221	1
<b>Total other assets</b>	<b>1,901,065</b>	<b>9</b>	<b>1,915,790</b>	<b>12</b>
<b>Total assets</b>	<b>\$ 22,636,053</b>	<b>100</b>	<b>16,995,132</b>	<b>100</b>

See accompanying notes to financial Statements

(Continued)

Unit: NT\$1,000

	Dec.31, 2011		Dec.31, 2010	
	Amount	%	Amount	%
<b>Liabilities and Stockholders' Equity</b>				
<b>Current liabilities:</b>				
Short-term borrowings (note 4(i))	\$ 1,141,667	5	961,390	6
Short-term commercial papers payable (note 4(j))	249,601	1	—	—
Accounts payable	1,208,897	5	940,461	6
Income tax payable	442,430	2	220,098	1
Long-term debts—current portion (notes 4(k) and 6)	100,000	—	250,000	1
Accrued expenses and other current liabilities (notes 4(f) and 5)	813,319	4	609,629	4
<b>Total current liabilities</b>	<b>3,955,914</b>	<b>17</b>	<b>2,981,578</b>	<b>18</b>
<b>Long-term interest-bearing liabilities:</b>				
Long-term debts (notes 4(k) and 6)	—	—	100,000	1
<b>Other liabilities:</b>				
Reserve for land value increment tax (note 4(f))	56,683	—	56,683	—
Accrued pension liability (note 4(l))	143,648	1	149,344	1
Returnable deposits (note 5)	17,704	—	17,219	—
Deferred income tax liabilities (note 4(n))	1,124,831	5	555,467	3
Other liabilities—others (notes 4(e, (f) and 5)	169,823	1	176,171	1
<b>Total other liabilities</b>	<b>1,512,689</b>	<b>7</b>	<b>954,884</b>	<b>5</b>
<b>Total liabilities</b>	<b>5,468,603</b>	<b>24</b>	<b>4,036,462</b>	<b>24</b>
<b>Stockholders' equity (notes 4(b), 4(e), 4(l), 4(m) and 4(n)):</b>				
Capital:				
Common stock	7,149,004	32	6,499,095	38
Capital surplus:				
Additional paid-in capital	849	—	849	—
Others	68,154	—	68,154	—
	69,003	—	69,003	—
Retained earnings:				
Legal reserve	2,523,529	11	2,195,612	13
Unappropriated earnings	6,461,223	29	3,971,967	23
	8,984,752	40	6,167,579	36
Other equity adjustments:				
Accumulated translation adjustments	1,002,365	4	257,903	2
Net loss not yet recognized as net pension cost	(44,940)	—	(48,156)	—
Unrealized gains (losses) on financial instruments	—	—	5,980	—
Reserve for asset revaluation increment	7,266	—	7,266	—
	964,691	4	222,993	2
<b>Total stockholders' equity</b>	<b>17,167,450</b>	<b>76</b>	<b>12,958,670</b>	<b>76</b>
<b>Significant commitments and contingencies (notes 5 and 7)</b>				
<b>Total liabilities and stockholders' equity</b>	<b>\$ 22,636,053</b>	<b>100</b>	<b>16,995,132</b>	<b>100</b>

See accompanying notes to financial Statements

Chairman :Shao Yu Wang

Manager :Wei-Hua Tu

Chief Accountant :John Chen

**TSRC CORPORATION**  
**Statements of Operations**  
**For the years ended December 31, 2011 and 2010**  
**(expressed in thousands of New Taiwan dollar)**

Unit: NTS1,000

	2011		2010	
	Amount	%	Amount	%
<b>Gross sales(Note 5):</b>				
<b>Gross sales</b>	\$ 20,629,837	100	15,269,430	100
Less: sales returns	4,173	—	4,977	—
sales discounts	13,506	—	214	—
<b>Net sales</b>	20,612,158	100	15,264,239	100
<b>Cost of sales (notes 3, 4(d), 4(l), 4(m), and 10)</b>	16,093,130	78	12,632,630	83
<b>Gross profit</b>	4,519,028	22	2,631,609	17
<b>Operating expenses (notes 4(g), 4(l), 4(m), 5 and 10) :</b>				
Selling expenses	454,869	2	399,534	3
General and administrative expenses	476,823	2	311,930	2
Research and development expenses	255,519	1	172,724	1
	1,187,211	5	884,188	6
<b>Operating income</b>	3,331,817	17	1,747,421	11
<b>Non-operating income and gains:</b>				
Interest income	7,077	—	2,437	—
Investment income, net, accounted for by the equity method (note 4(e))	3,525,251	17	1,819,768	12
Dividend income (note 4(b))	100,574	—	32,057	—
Gains on valuation of financial assets, net (note 4(b))	—	—	589	—
Gains on disposal of investments (notes 4(b) and 5)	7,962	—	36,997	—
Foreign exchange gains, net	40,167	—	1,269	—
Rental income (note 5)	72,579	—	72,534	—
Other income (note 5)	139,013	1	209,292	1
	3,892,623	18	2,174,943	13
<b>Non-operating expenses and losses::</b>				
Interest expenses	19,411	—	18,513	—
Loss on disposal of property, net	781	—	3,012	—
Other expenses	168,947	1	116,200	1
	189,139	1	137,725	1
<b>Earnings before cumulative effect of changes in accounting principles and income tax</b>	7,035,301	34	3,784,639	23
<b>Income tax expense (note 4(n))</b>	1,288,622	6	505,477	3
<b>Earnings before cumulative effect of changes in accounting principles and after income tax</b>	5,746,679	28	3,279,162	20
Cumulative effect of changes in accounting principles (net of income tax of \$1,006) (notes 3 and 4(o))	(4,914)	—	—	—
<b>Net income</b>	\$ 5,741,765	28	3,279,162	20
<b>Basic earnings per share of common stock:</b>	Income before income tax	Net income	Income before income tax	Net income
Earnings before cumulative effect of changes in accounting principles before income tax	\$ 9.84	8.04	5.29	4.59
Cumulative effect of changes in accounting principles	(0.01)	(0.01)	—	—
<b>Net income</b>	\$ 9.83	8.03	5.29	4.59
<b>Diluted earnings per share of common stock:</b>				
Earnings before cumulative effect of changes in accounting principles and income tax	\$ 9.83	8.03	5.28	4.58
Cumulative effect of changes in accounting principles	(0.01)	(0.01)	—	—
<b>Net income</b>	\$ 9.82	8.02	5.28	4.58

See accompanying notes to financial Statements

Chairman :Shao Yu Wang

Manager :Wei-Hua Tu

Chief Accountant :John Chen

**TSRC CORPORATION**  
**Statements of Changes in Stockholders' Equity**  
**For the years ended December 31, 2011 and 2010**  
**(expressed in thousands of New Taiwan dollar)**

Unit: NT\$1,000

	<u>Retained earnings</u>				<u>Other equity adjustments</u>				<u>Total</u>
	<u>Common stock</u>	<u>Capital surplus</u>	<u>Legal reserve</u>	<u>Unappropriated earnings</u>	<u>Accumulated translation adjustments</u>	<u>Net loss not yet recognized as net pension cost</u>	<u>Unrealized gains (losses) on financial instruments</u>	<u>Reserve for asset revaluation increment</u>	
<b>Balance as of January 1, 2010</b>	\$ 6,499,095	69,003	1,962,455	3,005,673	579,328	-	5,468	7,266	12,128,288
Net income for the period	-	-	-	3,279,162	-	-	-	-	3,279,162
Appropriations and distributions (note 1):									
Legal reserve	-	-	233,157	(233,157)	-	-	-	-	-
Cash dividends	-	-	-	(2,079,711)	-	-	-	-	(2,079,711)
Changes in unrealized gains on financial instruments	-	-	-	-	-	-	512	-	512
Changes in net loss not yet recognized as net pension cost	-	-	-	-	-	(48,156)	-	-	(48,156)
Changes in accumulated translation adjustments	-	-	-	-	(321,425)	-	-	-	(321,425)
<b>Balance as of December 31, 2010</b>	6,499,095	69,003	2,195,612	3,971,967	257,903	(48,156)	5,980	7,266	12,958,670
Net income for the period	-	-	-	5,741,765	-	-	-	-	5,741,765
Appropriations and distributions (note 2):									
Legal reserve	-	-	327,917	(327,917)	-	-	-	-	-
Cash dividends	-	-	-	(2,274,683)	-	-	-	-	(2,274,683)
Stock dividends	649,909	-	-	(649,909)	-	-	-	-	-
Changes in unrealized gains on financial instruments	-	-	-	-	-	-	(5,980)	-	(5,980)
Changes in net loss not yet recognized as net pension cost	-	-	-	-	-	3,216	-	-	3,216
Changes in accumulated translation adjustments	-	-	-	-	744,462	-	-	-	744,462
<b>Balance as of December 31, 2011</b>	<u>\$ 7,149,004</u>	<u>69,003</u>	<u>2,523,529</u>	<u>6,461,223</u>	<u>1,002,365</u>	<u>(44,940)</u>	<u>-</u>	<u>7,266</u>	<u>17,167,450</u>

Note 1: Directors' and supervisors' emoluments \$21,440 and employees' bonus \$42,881 has been deducted from statements of operations.

Note 2: Directors' and supervisors' emoluments \$30,150 and employees' bonus \$60,301 has been deducted from statements of operations.

See accompanying notes to financial Statements

Chairman :Shao Yu Wang

Manager :Wei-Hua Tu

Chief Accountant :John Chen

**TSRC CORPORATION**  
**Statements of Cash Flows**  
**For the years ended December 31, 2011 and 2010**  
**(expressed in thousands of New Taiwan dollar)**

Unit: NT\$1,000

	2010	2009
	<u>Amount</u>	<u>Amount</u>
<b>Cash flows from operating activities:</b>		
<b>Net income</b>	\$ 5,741,765	3,279,162
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation (include those of rental asset and idle assets)	202,119	287,785
Amortization	11,044	—
Reversal of allowance for bad debt	(14,509)	(31,493)
Reversal of losses on inventory valuation and obsolescence	(1,377)	(16,555)
Investment income, net, accounted for by the equity method	(3,525,251)	(1,819,768)
Cash dividends of long-term investments, accounted for by the equity method	23,333	59,659
Losses on disposal of property and equipment, net	781	3,012
Gain on recovery of impairment loss in idle assets	(20,436)	(46,094)
Gains on disposal of available-for-sale financial assets	(7,962)	(36,997)
Deferred income tax expense	714,901	168,715
Realization of unearned revenue from technology provided by investment equity	(16,541)	(16,541)
<b>Change in operating assets and liabilities:</b>		
<b>Changes in operating assets:</b>		
Financial assets at fair value through profit or loss — current	—	922
Notes receivable	6,894	12,529
Accounts receivable	(869,435)	(290,960)
Accounts receivable — related parties	(72,984)	(11,611)
Other financial assets — current	(8,644)	(17,933)
Inventories	(554,325)	(409,805)
Prepayments and other current assets	24,794	(1,491)
<b>Changes in operating liabilities:</b>		
Accounts payable	268,436	242,130
Income tax payable	222,332	180,640
Accrued expenses and other current liabilities	229,669	105,552
Accrued pension liability	2,805	358
Other liabilities	16,541	(28,360)
<b>Net cash provided by operating activities</b>	<u>2,373,950</u>	<u>1,612,856</u>
<b>Cash flows from investing activities:</b>		
Increase in available-for-sale financial assets	(890,000)	(490,000)
Proceeds from sale of available-for-sale financial assets	973,761	1,876,522
Proceeds from disposal of financial assets carried at cost — noncurrent	—	88,246
Proceeds from liquidation of investment, accounted for by equity method	—	43,960
Refunds from capital reduction of investee, accounted for by cost method	144,000	—
Acquisitions of property, plant and equipment	(581,806)	(278,037)
Proceeds from sale of property, plant and equipment	11,340	—
Increase in other financial assets — noncurrent	(913)	(1,363)
Increase in intangible assets	(1,472)	—
<b>Net cash provided by (used in) investing activities</b>	<u>(345,090)</u>	<u>1,239,328</u>

(Continued)

**TSRC CORPORATION**  
**Statements of Cash Flows-continued**  
**For the years ended December 31, 2011 and 2010**  
**(expressed in thousands of New Taiwan dollar)**

Unit: NT\$1,000

	2010	2009
	<u>Amount</u>	<u>Amount</u>
<b>Cash flows from financing activities:</b>		
Increase in short-term borrowings	\$ 180,277	153,163
Increase in short-term commercial papers payable	249,601	—
Repayment of long-term debts	(250,000)	(250,000)
Payment of lease account payable	(6,423)	—
Increase in returnable deposits	485	676
Payment of cash dividends	(2,274,067)	(2,077,474)
<b>Net cash used in financing activities</b>	<u>(2,100,127)</u>	<u>(2,173,635)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(71,267)	678,549
<b>Cash and cash equivalents, beginning of year</b>	1,504,221	825,672
<b>Cash and cash equivalents, end of year</b>	<u>\$ 1,432,954</u>	<u>1,504,221</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for: Interest paid	\$ 18,651	18,827
Income tax paid	\$ 351,496	156,122
<b>Supplemental disclosures of investing and financing activities with cash expenditure:</b>		
Purchase of property, plant and equipment	555,286	389,953
Net changes in accounts payable	26,520	(111,916)
Cash payment	\$ 581,806	278,037
Distribution of cash dividends	\$ 2,274,683	2,079,711
Net changes in dividends payable	(616)	(2,237)
Cash payment	\$ 2,274,067	2,077,474
<b>Supplemental disclosures of investing and financing activities with no cash effect:</b>		
Receivable from liquidation of investment, accounted for by equity method	\$ —	24,299
Unrealized gain/losses on financial instruments	\$ (5,980)	512
Financial assets carried at cost-noncurrent from a liquidation of investment accounted for by equity method	\$ —	274,174
Property, plant and equipment transferred to rental assets	\$ —	73,248
Idle assets transferred to rental assets	\$ —	14,401
Leased asset and payable recognized simultaneously under a capital lease	\$ —	94,596
Reclassification of current portion of long-term debts	\$ 100,000	250,000
Property, plant and equipment transferred to software	\$ 51,763	2,833
Inventory transferred to property, plant and equipment	\$ 9,915	—
Accumulated translation adjustments	\$ (744,462)	321,425

See accompanying notes to financial Statements

Chairman :Shao Yu Wang

Manager :Wei-Hua Tu

Chief Accountant :John Chen



**TSRC CORPORATION**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

(expressed in thousands of New Taiwan dollars unless otherwise stated)

**1. Organization and Business Scope**

TSRC Corporation (the original name was Taiwan Synthetic Rubber Corporation, TSRC) was incorporated in the Republic of China (ROC) on November 22, 1973, as a corporation limited by shares in accordance with the ROC Company Act. In May 1999, Taiwan Synthetic Rubber Corporation was renamed TSRC as approved by the stockholders' meeting. TSRC is engaged in the (i) manufacture, import and sale of various types of synthetic rubber; (ii) import, export, and sale of related raw materials; (iii) manufacture and sale of processed synthetic rubber products; and (iv) manufacture and sale of steam and electricity produced while production (no sales of electricity to the public); (v) other than the scope of business permitted through registration, operation of business unless which business is prohibited or restricted by law is allowable.

As of December 31, 2011 and 2010, TSRC had 593 and 560 employees, respectively.

**2. Summary of Significant Accounting Policies**

The financial statements of TSRC are prepared in conformity with the ROC "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles. The significant accounting policies and measurement basis adopted in preparing the financial statements are summarized as follows:

**(a) Use of estimates**

The preparation of the accompanying financial statements in conformity with the aforementioned guidelines, regulations and principles requires management to make reasonable assumptions and estimates of matters that are inherently uncertain. Actual results may differ from management's estimates.

**(b) Foreign currency transactions**

TSRC maintains its books in New Taiwan dollars, which is its reporting and functional currency. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars using the exchange rates on that date. The resulting unrealized exchange gains or losses from such translations are reflected in the accompanying statements of income. Non-monetary assets and liabilities denominated in foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are reported at the rate that was in effect when the fair values were determined. Subsequent adjustments to carrying values of such non-monetary assets and liabilities, including the effects of changes in exchange rates, are reported in profit or loss for the period, except that if movement in fair value of a non-monetary item is recognized directly in equity, any foreign exchange component of that adjustment is also recognized directly in equity.

The financial statements of foreign subsidiaries that are accounted for by the equity method are translated into New Taiwan dollars at the exchange rates prevailing at the balance sheet dates, with the exception of stockholders' equity accounts, which are translated at historical exchange rates, and revenue, costs and expenses, which are translated at the average exchange rates during the reporting periods. The resulting translation differences are recorded as accumulated translation adjustments, a separate component of stockholders' equity.

**(c) Classification of assets and liabilities as current and noncurrent**

Current assets are unrestricted cash or cash equivalents and assets held for trading purpose which is to be converted into cash, sold, or consumed within one year after the date of the financial statements; all other assets are classified as noncurrent assets. Liabilities that are held primarily for the purpose of being traded or are expected to be settled within 12 months after the balance sheet date are classified as current liabilities; all other liabilities are classified as noncurrent liabilities.

**(d) Asset impairment**

Assessment is made at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) may have been impaired. If any such indication exists, the recoverable amount of the asset is estimated. Impairment loss is recognized for an asset whose carrying value is higher than the recoverable amount.

Impairment loss recognized in prior periods for assets other than goodwill is reversed if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The cash-generating unit to which goodwill is allocated is assessed for impairment on an annual basis and impairment loss thereon is recognized based on the excess of the carrying value over the recoverable amount.

**(e) Cash equivalents**

Cash equivalents consist of highly liquid short-term investments that are readily convertible to known amounts of cash and present insignificant risks from changes in interest rates. Cash equivalents generally represent commercial paper with maturities of three months or less at the date of acquisition.

**(f) Financial assets**

**1. Financial assets at fair value through profit or loss:**

Financial instruments are intended mainly for purposes of selling or repurchasing in the short term. Except for the derivatives that TSRC held for hedging purposes and are considered to be effective, all financial derivatives are classified into this account. At initial recognition, financial instruments are measured at fair value. Cost of transaction and issuance is recorded as current expense. Financial instruments are re-measured at fair value subsequently, with changes in fair value recognized in profit or loss. Trade-date accounting is adopted when purchasing or selling such financial instruments under transaction conventions.

**2. Available-for-sale financial assets:**

At initial recognition, financial instruments recognized as available-for-sale financial assets are measured at fair value plus acquisition cost. Subsequently, they are measured at fair value. Prior to the derecognition of such assets, the changes in fair value are reported as an adjustment item in stockholders' equity, except for impairment loss and translation profit or loss from monetary financial assets. When available-for-sale financial assets are derecognized, the cumulative gain or loss in equity is transferred to profit or loss.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized in earnings. The changes in fair value from subsequent re-measurement are reported as separate component of stockholders' equity. A subsequent reversal of allowance for impairment is allowed and recognizes it in profit or loss.

### 3. Financial assets carried at cost:

When TSRC does not have significant influence over the investee company and securities of the investee company whose fair value cannot be reliably measured, these financial instruments are stated at their original cost. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed until the assets are disposed.

### 4. Notes receivables, accounts receivables and other receivables:

Notes receivables and accounts receivables are generated from sales of goods or provision of services directly providing to the customer. Other receivables are generated from sales of good and provision of services for non-operating purposes.

Financial assets are measured at amortized cost using the effective method. TSRC considers evidence of impairment for financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

In assessing collective impairment, TSRC uses historical trends of the profitability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Loss are recognized in profit or loss and reflected in an allowance account against financial assets. Interest on the impaired asset continues to be recognized. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reverse through profit or loss.

Before December 31, 2010, an allowance for doubtful receivables was provided based on review of the collectability of receivables. TSRC determined the amount of the allowance for the doubtful receivables by considering the account aging analysis and current trends in the credit quality of its customers. Effective January 1, 2011, allowance for bad debts is recognized based on the result of impairment test of financial assets.

### **(g) Inventories**

Inventories are measured at the lower of cost or net realizable value. Effective on January 1, 2011, the method of valuing inventories was changed from first-in first-out method to moving average method. The cost of inventories is based on the standard cost. Net realizable value is the estimated selling price in the ordinary course of business at the balance sheet date, less the estimated costs of completion and selling expenses at the end of the period. The difference between standard cost of inventory and actual cost of inventory is allocated proportionately to inventories and cost of sales. The fixed manufacturing overhead is allocated to inventories and cost of sales based on the higher of normal capacity or actual capacity of production. The amount of unallocated fixed manufacturing overheads resulting from lower capacity or idle plant is recognized in cost of sales during the years ended December 31.

### **(h) Investments accounted for by the equity method**

The investments in equity securities are accounted for by the equity method when TSRC and its investees hold 20% or more voting rights of an investee, or hold less than 20% of voting rights but have significant influence on the investee's financial and operating policy.

The excess of cost of investment over the fair value of identifiable net assets acquired is accounted for as goodwill, which is not amortized in accordance with the revised Statement of Financial Accounting Standards No. 5 "Long-term Investments under Equity Method".

When TSRC subscribes for additional investee's shares at a percentage different from its ownership percentage, it causes a difference between the carrying amount of TSRC's investment in investee and its share of the investee's equity. TSRC records such a difference as an adjustment to long-term investments with the corresponding amount credited to capital surplus.

Under the equity method, gains or losses from inter-company transactions are deferred and then recognized when realized. Gains or losses resulting from inter-company transactions involving depreciable or amortizable assets are deferred and then recognized over the assets' estimated useful lives. Gains or losses resulting from other inter-company transactions are recognized when realized.

If investees accounted for by the equity method is dissolved through the approval of shareholders' meeting, investment loss thereon is recognized until the date of dissolution and the equity method cannot be adopted after dissolution. If investees are still under the process of liquidation, the recoverable amount of investment is estimated so any estimated loss on disposal is recognized immediately. However, the estimated gain from the disposal thereof is recognized only when the liquidation is complete.

When TSRC has control over the investee company, such investee company is included in consolidated financial statements at the end of the first quarter, half-year, third quarter and fiscal year, in accordance with the statement of Financial Accounting Standards No.7 "Consolidated Financial Statements".

### **(i) Property, plant and equipment**

Property, plant and equipment are stated at cost plus revaluation increment. Interest on borrowings in connection with the acquisition of property and equipment or the construction of plant is capitalized as a component of the respective asset. Major addition, improvement, and replacement cost are capitalized. Maintenance and repair cost are recorded as current expense.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. When property, plant and equipment reach their useful lives but they are still being made available for use, depreciation is calculated continuously based on their residual value and estimated remaining useful lives.

Gains or losses on the disposal of property, plant and equipment are recorded as non-operating income or expense.

The estimated costs of dismantling and removing an item and restoring the site on which it is located are capitalized. Each part of an item of property, plant or equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The remaining useful life, depreciation method, and residual value are assessed at each fiscal year-end, and changes therein are accounted for as changes in accounting estimates.

The estimated useful lives of the respective assets are as follows:

- (i) Land improvements: 8~30 years
- (ii) Buildings: 3~60 years
- (iii) Machinery and equipment: 8~40 years
- (iv) Furniture and fixtures: 3~8 years

Land and buildings held for operating lease are classified as other assets—rental assets based on carrying value.

Idle assets are accounted for as other assets and evaluated for impairment in accordance with Statement of Financial Accounting Standards No. 35 “Impairment of Assets” .

#### **(j) Intangible assets**

The cost of software is stated at acquisition cost. It is amortized over three years using the straight-line method when it becomes available for use.

#### **(k) Capital lease**

The leased property is measured at present value of all future rental payments (less the lessee's executory costs) plus the bargain purchase price or the lessee's guaranteed residual value or market value of the leased property at the inception date of the lease, whichever is lesser.

The lessee's periodic rental payment covers two parts: (i) the purchase price of the leased property and (ii) the interest expense due to long-term or installment financing. Therefore, the lessee recognizes both a lease liability and interest expense periodically. The interest expense is calculated based on the following rules:

a) If the value of the leased property is determined using the maximum borrowing rate for nonfinancial institutions (determined by the ROC Ministry of Finance) on the inception date of the lease, interest expense is calculated based on the beginning balance of the lease payable and the maximum borrowing rate.

b) If the value of the leased property is determined by its market price, interest expense is also calculated based on the beginning balance of the lease payable and the maximum borrowing rate. However a service charge is calculated based on the beginning balance of the lease payable and the difference between the lessor's interest rate implicit in the lease and the maximum borrowing rate.

If there is any unguaranteed residual value at the end of the lease term, the lessee calculates the imputed interest expense based on the rental payments and the leased property's market value using the rules described under items (a) and (b) above.

The lessee's lease payable excludes the interest expense and the service charge from the periodic rental payment.

The lease liability is classified as either current or non-current liability, depending on the due date.

#### **(l) Financial liabilities**

Financial liabilities at fair value through profit or loss

Financial instruments are intended mainly for purposes of selling or repurchasing in the short term. Except for the derivatives that TSRC held for hedging purposes and are considered to be effective, all financial derivatives are classified into this account. At initial recognition, financial instruments are measured at fair value. Cost of transaction and issuance is recorded as current expense. Financial instruments are re-measured at fair value subsequently, with changes in fair value recognized in profit or loss.

#### **(m) Employee retirement benefits**

a) Defined benefit plan:

TSRC has adopted a defined benefit retirement plan (the “Plan” ) for all salaried employees since 1980. The Plan provides for benefit payments using a formula based on an employee's length of service and average salary for six months before retirement. According to the Plan, employees qualified for retirement are entitled to receive their benefit payment in a lump sum. TSRC is funding the Plan monthly in accordance with the Labor Standards Law. The pension fund is deposited with Bank of Taiwan, the government-designated custodian of pension funds.

TSRC adopted Statement of Financial Accounting Standards No. 18, “Accounting for Pensions” . Under this standard, TSRC is required to perform an actuarial calculation on its pension obligation as of each fiscal year-end. Based on the actuarial calculation, TSRC recognizes a minimum pension liability and net periodic pension costs covering the service lives of participants. A deferred pension cost is recognized and classified under intangible assets when the amount of additional liability does not exceed the sum of unrecognized prior service cost and unrecognized transitional net benefit obligation. An excess is charged to the net loss not yet recognized as net periodic pension cost account, and is classified as a reduction of equity. The unrecognized net transition obligation and unrecognized pension gain or loss are amortized on a straight-line basis.

For those employees who were covered by the Plan, pension contributions are made monthly to the Bureau of Labour Insurance at the rate of 7.07% of their monthly wages from April 2010 to February 2011. Subsequently, this contribution rate was adjusted to 8.93% from March 2011.

b) Defined contribution plan:

Starting from July 1, 2005, the enforcement rules of the newly enacted Labour Pension Act (the “New Act” ) require the following categories of employees to adopt the New Act's defined contribution plan:

- (i) Employees who were covered by the Plan and opted to be subject to the pension mechanism under the New Act; and
- (ii) Employees who commenced working after the enforcement date of the New Act.

In accordance with the New Act, TSRC shall contribute monthly no less than 6% of an employee's monthly salary or wages to the employee's individual pension fund account at Bureau of Labour Insurance. The actual contribution rate of TSRC is 6% of the employee's monthly wages. Such contributions are charged to current operations as pension cost on accrual basis.

#### **(n) Employees' bonus and directors' and supervisors' emoluments**

Employees' bonus and directors' and supervisors' emoluments are accounted for under Interpretation (96) 052 issued by the ARDF. According to this Interpretation, the employees' bonus and directors' and supervisors' emoluments are estimated and recognized as expenses when TSRC's legal obligation and the amounts can be reasonably determined. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized in profit or loss.

**(o)Revenue recognition**

(i)Sales and cost of sales are recognized when significant risks and rewards of ownership of the products are transferred to the buyers. Also, a provision for estimated returns and discounts is recorded as sales are recognized. Expenses are recognized on an accrual basis.

(ii)Dividends income is recognized on the date of dividend distribution or on the date when the board of directors approved a resolution to distribute dividends.

**(p)Income tax**

Income taxes are accounted for under the asset and liability method. Deferred income taxes are determined based on differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, net operating loss carry forwards, and income tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly. The flow-through method is adopted for income tax credits resulting from the purchase of equipment or technology, research and development expenditures, and human resource development expenditures.

When a change in the tax laws is enacted, the deferred tax assets or liabilities (including items that are directly debited or credited to stockholders' equity) are recalculated accordingly in the period of change. The effect of changes in the deferred tax assets or liabilities is reported as an adjustment to current income tax benefit or expense.

A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. If the deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the expected realization date of such deferred income tax asset or liability.

Any tax credits arising from purchase of machinery, equipment and technology, research and development expenditures, and personnel training expenditures are recognized using the flow-through method.

Undistributed income, if any, is subject to an additional 10 percent retained earnings surtax. This surtax is charged to income tax expense in the following year when the stockholders approved a resolution not to distribute the earnings.

**(q)Earnings per share of common stock**

Earnings per share are computed by dividing the amount of net income attributable to common stock outstanding for the period by the weighted-average number of common shares outstanding during the period.

Stock options issued by TSRC as employees' bonus but still not yet approved by stockholders are treated as potential common stock. When computing diluted EPS, potential common shares are included in the calculation if they are dilutive. Non-dilutive potential common shares are excluded from the calculation of diluted EPS.

The method of calculating the diluted EPS is consistent with that of the basic EPS but the diluted EPS includes the effects of all potentially dilutive common shares that were outstanding during the reporting period. When calculating diluted EPS, the net income attributable to common stockholders and the weighted-average number of shares outstanding are adjusted for the effects of all potentially dilutive common shares.

The weighted-average number of common shares outstanding is adjusted currently and retroactively for the increase in common shares outstanding from stock issuance through the capitalization of retained earnings, additional paid-in capital, or employees' bonus. For calculating the diluted EPS, the employees' bonus in stock is included in the calculation of the weighted-average number of shares at market price or net value on the balance sheet date.

**(r)Operating segments**

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). The segment's operating results are reviewed regularly by the entity's chief operating decision maker to make decisions pertaining to the allocation of the resources to the segment and to assess its performance for which discrete financial information is available. Operating segments in TSRC are disclosed in consolidated financial statement.

**3.Reason for and Effect of Accounting Changes**

(a)TSRC adopted the third revisions of the ROC SFAS No. 34 "Accounting for Financial Instruments" effective on January 1, 2011 for the recognition, subsequent measurement and impairment of originated loans and receivables. The adoption of this amended accounting principle caused no significant impact on the Company's financial statements as of and for the year ended December 31, 2011.

(b)TSRC changed the valuation method of valuing inventories from first-in first-out to moving average method commencing from January 1, 2011. For the year ended December 31, 2011, the effects to their net income after tax and EPS were as follows:

	Net income	EPS
Effect to net income and EPS from first-in first-out to moving average	\$ 4,914	0.01

(c)TSRC adopted the ROC SFAS No. 41 "Disclosure of the Operating Segment" starting from January 1, 2011. According to this new accounting standard, an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effect of the business activities in which it engages and the economic environment in which it operates. Internal information that is provided to the operating decision maker is used as the basis for determining and disclosing the operating segment. This standard replaces the ROC SFAS No. 20 "Segment Reporting". The adoption of this new accounting standard was to disclose certain information and with no impact on TSRC's profit and loss for the year ended December 31, 2011.

#### 4. Description of Significant Accounts

##### (a) Cash and cash equivalents

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Check deposits	\$ 4,425	11,069
Savings deposits (Including foreign currencies)	74,087	230,964
Commercial paper with repurchase agreements	<u>1,354,442</u>	<u>1,262,188</u>
	<u>\$ 1,432,954</u>	<u>1,504,221</u>

##### (b) Financial assets (including derivatives and non-derivatives)

###### (i) Financial liabilities at fair value through income statement

TSRC entered into derivative contracts during the years ended December 31, 2010 to manage exposures due to fluctuations of foreign exchange rates. The derivative contracts entered into by TSRC did not meet the criteria for hedge accounting. Therefore, TSRC recorded these derivative contracts as financial instruments at fair value. The gain on valuation of derivative instruments was \$589 thousand in 2010, and it was classified under non-operating income and gains—gains on valuation of financial assets, net. All the above contracts have been settled by December 31, 2010. TSRC did not enter into any derivative contract in 2011.

###### (ii) Available-for-sale financial assets—current:

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Continental Holding Corporation <Note>	\$ —	<u>81,779</u>

Note: This investee restructured its organization in 2010. Under such restructuring, a new holding company, named “Continental Holding Corporation” (hereinafter called CHC), was founded and became a holding company of the original company, named “Continental Engineering Corporation”. On April 8, 2010, CHC went public as a listed company.

For the years ended December 31, 2011 and 2010, the sale of available-for-sale financial assets resulted in gains of \$7,962 and \$5,143 thousand respectively, which were accounted for as non-operating income and gains—gains on disposal of investments. For the year ended December 31, 2010, the changes in fair value of available-for-sale financial assets arising from subsequent re-measurement were negative net amount of \$5,980 thousand. As of December 31, 2011, TSRC did not hold any available-for-sale financial assets.

###### (iii) Financial assets carried at cost—noncurrent

###### Investment in equity securities—common stock:

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Taiwan High Speed Rail Corp.	\$ 500,000	500,000
Wei Dah Investment Co., Ltd.	244,073	388,073
Evergreen Development Corp.	209,878	209,878
Thai Synthetic Rubbers Co., Ltd.	65,143	65,143
Hsin-Yung Enterprise Corp.	<u>64,296</u>	<u>64,296</u>
	<u>\$ 1,083,390</u>	<u>1,227,390</u>

These are investments in equity securities which are stated at their original cost as they do not have quoted market price in an active market and whose fair value cannot be reliably measured.

The Board of Wei Dah Investment Co., Ltd resolved repurchase of partial capital shares in 2011. Therefore, TSRC received consideration of \$144,000 thousand.

For the years ended December 31, 2011 and 2010, TSRC received cash dividends of \$100,574 thousand and \$32,057 thousand, respectively, from the above investee companies.

##### (c) Notes and Accounts receivable

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Notes receivable	\$ 8,138	15,032
Accounts receivable	2,876,356	2,006,921
Accounts receivable-related parties	<u>96,796</u>	<u>23,812</u>
	<u>2,981,290</u>	<u>2,045,765</u>
Less: allowance for doubtful accounts	—	14,509
	<u>\$ 2,981,290</u>	<u>2,031,256</u>

As of December 31, 2011 and 2010, TSRC's notes and accounts receivable were not pledged.

Short term of notes receivable and accounts receivable are not discounted to present value, and their fair value was estimated to be equal to their carrying value because of the near maturity dates.



**(d) Inventories**

(i) The components as of December 31, 2011 and 2010, were as follows:

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Finished goods	\$ 1,560,856	962,721
Work in process	207,659	180,005
Raw materials	514,817	590,250
Supplies and parts	24,946	29,515
	<u>\$ 2,308,278</u>	<u>1,762,491</u>

(ii) For the years ended December 31, 2011 and 2010, the changes in allowance for inventory valuation loss and obsolescence were as follows:

	<u>2011</u>	<u>2010</u>
Balance as of January 1	\$ 67,510	84,065
Provisions reversed during the period	(1,377)	(16,555)
Balance as of December 31	<u>\$ 66,133</u>	<u>67,510</u>

(iii) For the years ended December 31, 2011 and 2010, the inventory-related gains and loss, recorded in cost of sales, were as follows:

	<u>2011</u>	<u>2010</u>
Gains on reversal of inventory devaluation	\$ (1,377)	(16,555)
Loss on inventory obsolescence	-	330
Revenue from sales of scraps	(56,327)	(21,524)
	<u>\$ (57,704)</u>	<u>(37,749)</u>

A rapid fluctuation of material price is common due to the dynamic changes of economic environment. In addition, moving average method is mostly adopted not only in rubber industry but also in its upstream and downstream industries. In order to enhance the comparability of financial information and reasonableness of inventory cost in the rubber industry, TSRC changed its method of inventory valuation from first-in first-out to moving average method commencing from January 1, 2011.

**(e) Long-term investments accounted for by the equity method**

Investee	<u>Dec.31, 2011</u>			<u>Dec.31, 2010</u>		
	Holding Percentage	Balance	Investment Gain	Holding Percentage	Balance	Investment Gain
Trimurti Holding Corporation	100.00%	\$ 10,033,423	3,481,592	100.00%	5,986,390	1,708,366
Hardison International Corporation	100.00%	410,700	36,108	100.00%	367,363	81,102
Dymas Corporation	19.48%	73,820	7,551	19.48%	66,280	17,444
Shin Dah Development Corporation Limited	-	-	-	-	-	12,856
		<u>\$ 10,517,943</u>	<u>3,525,251</u>		<u>\$ 6,420,033</u>	<u>1,819,768</u>

Note: The original name of this investee company was Trimurti Trading Corporation, but was changed to Trimurti Holding Corporation through a resolution approved by the stockholders during their meeting on September 8, 2010.

As of December 31, 2011 and 2010, the accumulative translation adjustments were \$1,002,365 thousand and \$406,373 thousand, respectively.

In the fourth quarter of 2010, Hardison International Corporation and Dymas Corporation, investee companies accounted for by equity method, reduced their issued shares and returned them in cash to stockholders. TSRC received cash based on percentage of capital reduction proportionally and its long-term investment decreased to \$35,393 thousand and \$8,567 thousand, respectively.

The effective liquidation date of Shin Dah Development Corporation Limited was on December 23, 2010. Because of this liquidation, TSRC received \$112,545 thousand in cash and \$274,174 thousand worth of shares of Evergreen Development Corp. and Hsin-Yung Enterprise Corp. The carrying value of such investment was \$362,591 thousand and the gain realized from the disposal thereof amounted to \$24,128 thousand. In 2005, TSRC sold its long-term equity investment in Hsin-Yung Enterprise Corp. to Shin Dah Development Corporation Limited. This resulted in unrealized gain of \$7,726 thousand, which was recorded as gain on disposal of long-term investment. For the year ended December 31, 2010, gain on disposal of long-term investments accounted for by the equity method amounted to \$31,854 thousand and was classified under non-operating income and gains.

In 2008, TSRC invested technology as capital in TSRC (Nantong) Industries Co., Ltd. And TSR C-UBE (Nantong) Chemical Industrial Corporation Limited through Trimurti Holding Corporation and Polybus Corporation Pte. Ltd. Certain portion of this investment is through providing technology as capital injection. The original amount was US\$ 6,648 thousand and US\$ 1,000 thousand, respectively, recorded in other liabilities—others.

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
TSRC (Nantong) Industries Co., Ltd.	\$ 66,825	80,131
TSRC-UBE (Nantong) Chemical Industrial Corporation Limited	<u>19,681</u>	<u>22,916</u>
	<u>\$ 86,506</u>	<u>103,047</u>

**(f)Property, plant and equipment**

1. Certain parcel of land of TSRC was revalued using government-prescribed values in 1979 and 1981. Also, depreciable assets acquired before June 30, 1980, were revalued on January 1, 1981, which was approved by the Taipei National Tax Administration, based on the ROC " Statute for Encouragement of Investment" and other laws and regulations.

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Land	\$ 126,174	126,174
Land improvements	3,565	3,565
Buildings	37,018	37,018
Machinery and equipment	267,948	267,948
Furniture and fixtures	<u>208</u>	<u>208</u>
	<u>\$ 434,913</u>	<u>434,913</u>

2. TSRC has entered into a lease contract for leasing land from Industrial Development Bureau of the Ministry of Economic Affairs for the period from June 29, 2004, to June 28, 2024. During the term of the lease, TSRC has an option to purchase the rented land from Industrial Development Bureau of the Ministry of Economic Affairs through a formal application. Once the application is approved, the rental and deposit paid during the lease period can be offset against the purchase price. The relevant leased asset and lease payable were as follows:

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>		
Leased assets-land	<u>\$ 94,596</u>	<u>94,596</u>		
Lease payable:				
<u>Lesser</u>	<u>Lease period</u>	<u>Bargain purchase option</u>	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Industrial Development Bureau of the Ministry of Economic Affairs	6.29.2004~6.28.2024	Formally apply to Industrial Development Bureau of the Ministry of Economic Affairs for purchasing leased land	\$ 80,023	86,446
		Less : current portion	<u>6,912</u>	<u>6,987</u>
			<u>\$ 73,111</u>	<u>79,459</u>

The above lease payable—current and noncurrent were classified under accrued expenses and other liabilities, and other liabilities—other, respectively.

The details of lease payable (excluding VAT) due in future years for the above capital lease were as follows:

<u>Period</u>	<u>Amount</u>
2012	\$ 7,064
2013	7,064
2014	7,064
2015	7,064
After 2016	<u>60,043</u>
	88,299
Less : unrealized interest expense	<u>8,276</u>
Present value	<u>\$ 80,023</u>

**(g)Software**

	<u>2011</u>	<u>2010</u>
Balance as of January 1	\$ 2,833	-
Reclassification (Transferred from prepayments for machinery and equipment)	51,763	2,833
Addition	1,472	-
Amortization	<u>(11,044)</u>	-
Balance as of December 31	<u>\$ 45,024</u>	<u>2,833</u>

**(h)Other assets – rental and idle assets**

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Rental assets:		
Buildings	\$ 741,889	741,889
Less: accumulated depreciation	<u>116,068</u>	<u>101,343</u>
	625,821	640,546
Land	<u>1,155,023</u>	<u>1,155,023</u>
	<u>\$ 1,780,844</u>	<u>1,795,569</u>
Idle assets:		
Machinery and equipment	\$ 207,002	207,002
Less: accumulated depreciation	189,585	169,149
accumulated impairment	<u>17,417</u>	<u>37,853</u>
	-	-
Land	<u>\$ 120,221</u>	<u>120,221</u>
	<u>\$ 120,221</u>	<u>120,221</u>

In 1988, TSRC purchased certain parcels of land near its Kaohsiung plant. This land has not yet been actively developed, and part of the land is being leased to a non-related party. The cost of the related assets is included in rental assets and idle assets.

**(i)Short-term borrowings**

Short-term borrowings consisted of bank credit loans. As of December 31, 2011 and 2010, the related interest rates were as follows:

	<u>2011</u>	<u>2010</u>
JPY borrowings	0.74%~0.98%	0.774%~0.900%
USD borrowings	1.18%~1.66%	0.690%~1.639%
EUR borrowings	2.13%~2.31%	1.220%~1.510%

As of December 31, 2011 and 2010, TSRC had unused short-term credit lines amounting to \$3,303,576 thousand and \$4,381,030 thousand, respectively.

**(j)Short-term commercial papers payable**

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Short-term commercial papers payable	\$ 250,000	-
Less: discount on short-term commercial papers payable	<u>399</u>	-
	<u>\$ 249,601</u>	-
Rate	<u>1.2%</u>	-



**(k) Long-term debts**

Bank	Nature and duration	Dec.31, 2011		Dec.31, 2010	
		Amount	Interest rate	Amount	Interest rate
Taiwan Cooperative Bank	Secured loans, 2007.08.14~2012.08.14, interest is payable monthly and principal is payable in 6 half-yearly installments after 25 months commencing from the date of initial utilization of debt.	\$ 100,000	1.37%	200,000	1.260%
Mega International Commercial Bank	Secured loans, 2008.06.20~2011.06.20, interest is payable monthly. Half of principal is payable in 30 months after the date of initial utilization of debt, and the remaining amount is payable on maturity date.	-	-	150,000	1.240%
	Total	100,000		350,000	
	Less: current portion	(100,000)		(250,000)	
		\$ -		100,000	

**(l) Retirement benefits**

1. As of December 31, 2011 and 2010, the pension information on defined benefit plan were as follows:

	Dec.31, 2011	Dec.31, 2010
Vested benefit	\$ 451,280	436,650
Benefit obligation:		
Vested benefit obligation	\$ 344,137	334,705
Accumulated benefit obligation	\$ 554,119	563,316
Projected benefit obligation	\$ 654,184	672,071
Fair value of plan assets	410,471	413,972
Funded status	243,713	258,099
Unrecognized net loss	(145,005)	(156,911)
Unrecognized transition obligation	(26,418)	(31,703)
Adjustment required to recognize minimum liability (note)	71,358	79,859
Accrued pension liability	\$ 143,648	149,344

Note: As of December 31, 2011 and 2010, additional accrued pension liabilities incurred from unrecognized transitional net benefit obligation of \$26,418 thousand and \$31,703 thousand, respectively, were recorded as deferred pension cost, and the excess amount of \$44,940 thousand and 48,156 thousand were recorded as net loss not yet recognized as net pension cost.

The components of net periodic pension cost for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Service cost	\$ 9,498	11,446
Interest cost	11,730	13,407
Actual return on plan assets	(4,911)	(6,898)
Net amortization and deferral	8,785	2,863
Net pension cost	\$ 25,102	20,818

Actuarial assumptions used for the retirement plan as of December 31, 2011 and 2010, were as follows:

	Dec.31, 2011	Dec.31, 2010
Discount rate	2.00%	1.75%
Future salary increase rate	1.50%	1.50%
Expected long-term rate of return on plan assets	2.00%	1.75%

2. The Corporation is subject to the Labor Pension Act, which became effective July 1, 2005. For the years ended December 31, 2011 and 2010, the Corporation contributed \$15,094 thousand and \$12,888 thousand, respectively, to the employees' individual pension accounts at the Bureau of Labor Insurance, recognized as pension expenses.

**(m) Stockholders' equity**

1. Common stock

As of December 31, 2011 and 2010, the authorized capital amounted to \$9,000,000 thousand and \$7,500,000 thousand, respectively, with par value of \$10 thousand per share, of which \$1,000,000 thousand was retained for conversion of convertible bonds, and the issued capital amounted to \$7,149,004 thousand and \$6,499,095 thousand.

2. Capital surplus

The ROC Company Act stipulates that realized capital surplus cannot be used to increase capital or distribute dividends except for making up deficits of TSRC. The realized capital surplus includes the premium from issuance of shares in excess of par value and donations received.

As of December 31, 2011 and 2010, the components of capital surplus were as follows:

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Share premium	\$ 849	849
Capital surplus resulting from long-term investment, accounted for by equity method	68,109	68,109
Other	45	45
	<u>\$ 69,003</u>	<u>69,003</u>

3. Legal reserve

The ROC Corporation Act stipulates that companies must retain 10% of their annual net earnings, as defined in the Act, until such retention equals the amount of issued share capital. When a company incurs no loss, it may, in pursuant to a resolution to be adopted by the shareholders' meeting as required, distribute its legal reserve by issuing new shares or cash. Only the portion of legal reserve which exceeds 25% of the paid-in capital may be distributed.

4. Special reserve, dividends and bonuses

In accordance with SFB Ruling Tai-Tsai-Cheng No. 100116, effective in 1999, in addition to appropriating a legal reserve, TSRC should appropriate a special reserve for other equity adjustment items with debit balance from current year's earnings after tax or prior year's unappropriated earnings. However, this special reserve cannot be distributed as dividend. When events resulting in other equity adjustment items with debit balances terminate, the related special reserve is reinstated into retained earnings, so that it can be made available for distribution as dividends.

Before the revision of TSRC articles of incorporation, TSRC must retain 10% of its after-tax earnings as legal reserve (less deficits of prior years, if any), and then provide a special reserve. The remaining earnings should be distributed as follows:

1.97% of annual earnings are distributed as stockholders' dividends and bonus.

2.1% of annual earnings are distributed as directors' and supervisors' emoluments.

3.2% of annual earnings are distributed as employees' bonus.

If the dividends and bonuses mentioned above are to be distributed, distribution for cash dividends should not be less than 20% of total dividends. The proportion of cash dividends is reduced or stock dividends are distributed if capital expenditures are anticipated in the future. Under any of the following circumstances, part or all of remaining earnings can be retained:

a) If Stock dividend per share is less than \$0.5.

b) If necessary, not over 50% of remaining earnings can be retained.

The amounts of individual directors' and supervisors' emoluments and employees' bonus are based upon the board of directors' resolution.

Based on a resolution approved by the shareholders during their meeting in 2011, the earnings distribution policies were modified as follows:

TSRC must retain 10% of its after-tax earnings as legal reserve (less deficits of prior years, if any), and then provide the special reserve. No less than 50% of distributable earnings shall be appropriated in the following order:

1.97% as stockholders' dividends and bonus.

2.1% as directors' and supervisors' emoluments.

3.2% as employees' bonus.

If the dividends and bonuses mentioned above are to be distributed, distribution of cash dividends should not be less than 20% of total dividends and stock dividends should not be more than 80% of total dividends. Distributable earnings would be retained if dividends mentioned above are less than 0.5 New Taiwan Dollars per share.

The amounts of individual directors' and supervisors' emoluments and employees' bonus are based upon the board of directors' resolution.

The appropriations of 2010 and 2009 earnings that were approved by TSRC's shareholders during their meetings on June 10, 2011, and June 15, 2010, respectively, were as follows:

	<u>2010</u>	<u>2009</u>
Cash dividends per share	\$ 3.50	3.2
Stock dividends per share	1.00	-
Employees' bonus—cash	60,301	42,881
Directors' and supervisors' emoluments	30,150	21,440

The amounts of employees' bonus and directors' and supervisors' emoluments were approved by TSRC'S shareholders during their meetings on June 10, 2011 and June 15, 2010, which are the same as the estimation in 2010 and 2009, and related information can be accessed through the Market Observation Post System.

For the years ended December 31, 2011 and 2010, TSRC recognized employees' bonus and directors' and supervisors' emoluments amounting to \$73,406 thousand (net of tax) and \$50,050 thousand (net of tax); directors' and supervisors' emoluments amounting to \$36,703 thousand (net of tax) and \$25,025 thousand (net of tax). Such amounts were estimated as percentages of the net income for the years ended December 31, 2011 and 2010, which are consistent with the articles of incorporation approved by TSRC's shareholders' meetings. The difference between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, shall be accounted for as changes in accounting estimates and recognized in profit or loss.

**(n)Income tax**

1.TSRC is subject to the ROC income tax at a maximum rate of 17% both for the years ended December 31, 2011 and 2010, and it applies to the "Income Basic Tax Act" .

2.For the years ended December 31, 2010 and 2011, the components of income tax expense were as follows:

	<u>2011</u>	<u>2010</u>
Current income tax expense	\$ 571,056	334,891
Deferred income tax expense	714,901	168,715
10% surtax on undistributed earnings	2,665	1,871
Income tax expense	<u>\$ 1,288,622</u>	<u>505,477</u>

The components of deferred income tax expense for the years ended December 31, 2011 and 2010, were as follows:

	<u>2011</u>	<u>2010</u>
Reversal of losses on idle assets valuation	\$ 3,474	10,854
Reversal of inventory valuation loss and obsolescence	234	5,336
Unrealized exchange gain (losses)	(3,167)	2,200
Reversal of (provision for) retirement benefits	(127)	4,209
Reversal of allowance for bad debt	-	5,689
Deferred charges and supplies transferred to expense	500	1,514
Amortization of capitalized interest expense	(1,319)	(14,498)
Depreciation difference between financial and tax reporting	(2,238)	7,667
Foreign investment income accounted for by the equity method, net	2,812	6,399
Technology as capital contribution difference between financial and tax reporting	689,850	163,677
Dividend income from overseas investee	(3,967)	-
Effect of change in income tax rate on deferred tax assets and liabilities	-	(23,808)
Other	28,849	(524)
	<u>\$ 714,901</u>	<u>168,715</u>

3. For the years ended December 31, 2011 and 2010, the differences between income tax calculated on pretax accounting income at statutory tax rate was reconciled with income tax expense as follows:

	<u>2011</u>	<u>2010</u>
Income tax calculated on pretax accounting income at statutory tax rate	\$ 1,196,001	643,389
Investment and R&D tax credits utilized	(11,063)	(8,258)
Previously overestimated income tax	(4,231)	-
Effect of change in statutory income tax rate	-	(58,167)
Domestic investment income accounted for by the equity method	-	(2,185)
Dividend revenue	(17,098)	(517)
Gain on disposal of investments, net	-	(5,415)
10% surtax on undistributed earnings	2,665	1,871
Others	122,348	(65,241)
Income tax expense	<u>\$ 1,288,622</u>	<u>505,477</u>

4. As of December 31, 2011 and 2010, deferred income tax assets (liabilities) were as follows:

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Current deferred income tax assets:		
Allowance for inventory valuation loss and obsolescence	11,243	11,477
Unrealized foreign exchange gains	916	(2,251)
Current deferred income tax assets (included in prepayments and other current assets)	<u>\$ 12,159</u>	<u>9,226</u>
Noncurrent deferred income tax assets:		
Allowance for idle assets valuation losses	2,961	6,435
Provision for retirement benefits	13,852	13,725
Deferred charges and supplies transferred to expense	2,672	3,172
Difference between technology contributed as the capital of investee	14,707	17,519
Others	1,735	1,735
Non-current deferred income tax assets	<u>35,927</u>	<u>42,586</u>
Noncurrent deferred income tax liabilities:		
Capitalized interest expenses	(36,357)	(37,676)
Depreciation differences between financial and tax reporting	(3,854)	(6,092)
Accumulated translation adjustments	-	(124,662)
Foreign investment income accounted for by the equity method	(1,118,388)	(428,538)
Others	(2,159)	(1,085)
Noncurrent deferred income tax liabilities	<u>(1,160,758)</u>	<u>(598,053)</u>
Noncurrent deferred income tax liabilities, net	<u>\$ (1,124,831)</u>	<u>(555,467)</u>

5. TSRC's income tax returns have been examined and assessed by the tax authorities through 2007.

6. As of December 31, 2011 and 2010, the balances of the ICA were as follows:

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Balances of imputation credit account	<u>\$ 369,144</u>	<u>185,736</u>
Imputation tax credit ratio	<u>8.89%</u>	<u>16.30%</u>

As of December 31, 2011 and 2010, the components of unappropriated earnings subject to imputation income tax were as follows:

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Derived from year 1997 and before	\$ 1,637	1,637
Derived from year 1998 and after	6,459,586	3,970,330
	<u>\$ 6,461,223</u>	<u>3,971,967</u>

**(o) Earnings per share**

	2011		2010	
	Before Income Taxes	After Income Taxes	Before Income Taxes	After Income Taxes
<b>Basic EPS:</b>				
Net income before cumulative effect of changes in accounting principles	\$ 7,035,301	5,746,679	3,784,639	3,279,162
Cumulative effect of changes in accounting principles	(5,920)	(4,914)	-	-
Net income	\$ 7,029,381	5,741,765	3,784,639	3,279,162
Weighted-average number of shares	714,900	714,900	714,900	714,900
Net income before cumulative effect of changes in accounting principles	\$ 9.84	8.04	5.29	4.59
Cumulative effect of changes in accounting principles	(0.01)	(0.01)	-	-
Basic EPS	\$ 9.83	8.03	5.29	4.59
<b>Diluted EPS:</b>				
Net income before cumulative effect of changes in accounting principles	\$ 7,035,301	5,746,679	3,784,639	3,279,162
Cumulative effect of changes in accounting principles	(5,920)	(4,914)	-	-
Net income	\$ 7,029,381	5,741,765	3,784,639	3,279,162
Weighted-average number of shares	714,900	714,900	714,900	714,900
Employees' bonuses	988	988	1,810	1,810
Weighted-average number of shares	715,888	715,888	716,710	716,710
<b>Calculating diluted EPS</b>				
Net income before cumulative effect of changes in accounting principles	\$ 9.83	8.03	5.28	4.58
Cumulative effect of changes in accounting principles	(0.01)	(0.01)	-	-
Diluted EPS	\$ 9.82	8.02	5.28	4.58

**(p) Financial instruments**

1. As of December 31, 2011 and 2010, the details of financial instruments were as follows:

	Dec.31, 2011			Dec.31, 2010		
	Book value	Fair value		Book value	Fair value	
		Public quote value	Assessment value		Public quote value	Assessment value
<b>Financial assets:</b>						
Fair value equal to book value of assets	\$ 4,550,203	78,512	4,471,691	3,662,792	242,033	3,420,759
Available-for-sale financial assets	-	-	-	81,779	81,779	-
Financial assets carried at cost	1,083,390	-	-	1,227,390	-	-
Other financial assets – noncurrent	4,258	-	4,258	3,345	-	3,345
<b>Financial liabilities:</b>						
Fair value equal to book value of liabilities	3,483,140	-	3,483,140	2,464,145	-	2,464,145
Long-term debts	100,000	-	100,000	350,000	-	350,000
Lease account payable – noncurrent	73,111	-	73,111	79,459	-	79,459
Returnable deposits	17,704	-	17,704	17,219	-	17,219
<b>Off-balance sheets financial instruments:</b>						
Guaranteed borrowings	-	-	5,391,119	-	-	1,434,653
Letter of credit	-	-	1,939,649	-	-	1,464,219

The methods and assumptions used to estimate the fair value of financial instruments above are summarized as follows:

(i) Fair value equal to book value of assets and liabilities: These are short-term financial instruments whose maturity dates are near the balance sheet date so that their fair values are estimated based on the book value at the balance sheet date. These include cash and cash equivalents, notes and accounts receivable and payable (including related parties), other financial assets—current, short-term borrowings, accrued expenses and other payables.

(ii) Available-for-sale financial assets: The fair values of these instruments are determined by the closing prices of common stock of listed companies or the net worth of funds at the balance sheet date.

(iii) Financial assets carried at cost: These are investments in non-listed companies with no open-market price, and whose fair value cannot be reasonably estimated.

(iv) Other financial assets—noncurrent: These are guarantee deposits paid for operations whose refund dates are uncertain. Due to difficulty of estimating their fair value by discounting future cash flow; the fair value was determined based on book value.

(v) Long-term debts: The fair values of long-term debts are determined based on the discounted future cash flows. Because the borrowing interest rates are floating, the carrying values of long-term debts approximate the market value.

(vi) Lease payable—noncurrent: The fair value is determined based on market value if there is available market value. If not, the fair value is estimated by the discounted estimated future cash inflows. The discount rate is based on available borrowing interest rate.

(vii) Returned deposits: There is no exact due date for guarantee deposits. The fair values are estimated to be equal to the carrying amount as of December 31, 2011 and 2010.

(viii) Guarantee for borrowings: The amount of TSRC's guarantee for bank loans of the investees equals potential loss. The amount of guarantee is estimated to be the fair value of borrowing contract.

(ix) Letter of credit: Fair value of the unused letter of credit intended for purchasing raw materials, machinery and equipment is determined by contract because the due date of letter of credit is close to balance sheet date.

## 2. Disclosures of financial risks

### (i) Market risk

Equity securities that TSRC owns are classified as available-for-sale financial assets. Because these instruments are re-measured at fair value, TSRC is exposed to the risks of changes in market prices.

TSRC is exposed to foreign currency risk on accounts receivable which are denominated in a currency other than New Taiwan dollars. This foreign currency risk will be offset by the same risk related to those short-term borrowings which are denominated in a foreign currency, and will be hedged by forward exchange contracts. Therefore, TSRC believes its exposure to foreign currency risk is low.

(ii) The significant financial assets and liabilities denominated in foreign currencies were as follows:

	Dec.31, 2011			Dec.31, 2010		
	Foreign Currency (In Thousands)	Exchange Rate	NTD	Foreign Currency (In Thousands)	Exchange Rate	NTD
<u>Financial assets</u>						
<u>Monetary assets</u>						
USD	\$ 59,459	30.290	1,801,013	43,437	29.1300	1,265,331
EUR	3,739	38.99	145,784	2,199	38.66	85,020
JPY	22,029	0.3886	8,560	17,080	0.3556	6,074
			<u>\$ 1,955,357</u>			<u>1,356,425</u>
<u>Investments accounted for by equity method</u>						
USD	\$ 347,241	30.290	<u>10,517,943</u>	220,392	29.130	<u>6,420,033</u>
<u>Financial assets</u>						
<u>Monetary assets</u>						
USD	\$ 37,259	30.290	1,128,575	33,455	29.130	974,537
EUR	1,903	38.99	74,198	2,093	38.66	80,915
JPY	20,010	0.3886	7,776	22,200	0.3556	7,894
			<u>\$ 1,210,549</u>			<u>1,063,346</u>

(i)Credit risk

TSRC's cash and cash equivalents, available-for-sale financial assets and accounts receivable are the main source of potential credit risk. TSRC deposits its cash and cash equivalents in different financial institutions. The available-for-sale financial assets are an open-end bond fund with good credit quality rating and shares of a listed corporation. In addition, TSRC has no concentration of credit risk on an individual customer. Therefore, TSRC concluded that it is not exposed to credit risk.

TSRC guarantees bank loans for the investees. TSRC concluded that it is not exposed to credit risk for these transactions because all of these investees are profitable.

(ii)Liquidity risk

TSRC has sufficient working capital to fulfill its financial obligations, and therefore, the liquidity risk to which TSRC is exposed is low.

TSRC's available-for-sale financial assets have market prices and are expected to be sold promptly at close to their fair value. Therefore, the liquidity risk is not significant. In addition, the liquidity risk from financial assets carried at cost is expected because no market price exists.

(iii)Cash flow risk related to the fluctuation of interest rates

TSRC's long-term debts bear floating interest rates. Therefore, TSRC's future cash flow will fluctuate due to change in market interest rate. As of December 31, 2011 and 2010, TSRC has financial liabilities with cash flow risk amounting to \$100,000 thousand and \$350,000 thousand, respectively. If the market interest rate increases by 1%, TSRC's future cash outflow will increase by approximately \$1,000 thousand and \$3,500 thousand, respectively.

## 5.Transactions with Related Parties

### (a)Name and relationship of related party

Name of Related Party	Relationship with the Corporation
Dymas Corporation	Investee 100.00% owned directly and indirectly by TSRC
Trimurti Holding Corporation	Investee 100.00% owned directly by TSRC
TSRC (Shanghai) Industries Ltd.	Investee 100.00% owned indirectly by TSRC
TSRC (Nantong) Industries Co., Ltd.	Investee 100.00% owned indirectly by TSRC
TSRC (Jinan) Industries Ltd.	Investee 100.00% owned indirectly by TSRC
Polybus Corporation Pte Ltd.	Investee 100.00% owned indirectly by TSRC
TSRC (USA) Investment Corporation	Investee 100.00% owned indirectly by TSRC
Shin Dah Development Corporation Limited	Investee 45.00% owned by TSRC (completion of liquidation at December 23, .2010)
Continental Engineering Corporation	The company's president is one of the TSRC's directors.
Shen Hua Chemical Industrial Co., Ltd.	Investee 65.44% owned indirectly by TSRC
TSRC-UBE (Nantong) Chemical Industrial Corporation Limited	Investee 55.00% owned indirectly by TSRC
Lanxess- TSRC (Nantong) Chemical Industrial Corporation Limited	Investee 50.00% owned indirectly by TSRC
CEC Security Corporation	A related party in substance.
Directors, supervisors, general manager and vice general manager	Directors, supervisors and top management of TSRC

### (b)Significant transactions

#### 1.Sales and accounts receivable

Significant sales to related parties are summarized as follows:

	2011		2010	
	Amount	Percentage of net sales	Amount	Percentage of net sales
TSRC (Shanghai) Industries Ltd.	\$ 55,675	0.27	32,419	0.21
TSRC (Nantong) Industries Co., Ltd.	\$ 52,320	0.25	58,340	0.38
TSRC (Jinan) Industries Ltd.	40,348	0.20	23,799	0.16
Polybus Corporation Pte Ltd.	55,565	0.27	-	-
TSRC-UBE (Nantong) Chemical Industrial Corporation Limited	-	-	180	-
	<u>\$ 203,908</u>	<u>0.99</u>	<u>114,738</u>	<u>0.75</u>

The related accounts receivable resulting from the above sales as of December 31, 2011 and 2010, were as follows:

	Dec.31, 2011		Dec.31, 2010	
	Amount	Percentage of accounts and notes receivable	Amount	Percentage of accounts and notes receivable
TSRC (Shanghai) Industries Ltd.	\$ 17,454	0.59	4,800	0.23
TSRC (Jinan) Industries Ltd.	\$ 13,391	0.45	5,595	0.27
TSRC (Nantong) Industries Co., Ltd.	16,476	0.55	13,147	0.66
Polybus Corporation Pte Ltd.	49,475	1.66	-	-
	<u>\$ 96,796</u>	<u>3.25</u>	<u>23,812</u>	<u>1.16</u>

The selling prices for related parties above were not significantly different from those of other customers; the credit terms of transactions to related parties were two to three months from completion of transactions.

#### 2.Services revenue

Nature	Name	Services revenue		Receivables	
		2011	2010	Dec.31, 2011	Dec.31, 2010
Management and technology services	Shen Hua Chemical Industrial Co., Ltd.	\$ 43,832	26,499	32,472	22,500
Management and technology services & trademark rights	TSRC (Shanghai) Industries Ltd.	5,238	6,134	4,434	4,585
Management and technology services & trademark rights	TSRC (Jinan) Industries Ltd.	3,991	4,182	3,368	3,144
Management and technology services	TSRC (Nantong) Industries Co., Ltd.	12,289	10,273	7,917	8,083
Management and technology services	TSRC-UBE (Nantong) Chemical Industrial Corporation Limited	22,551	15,921	7,216	11,016
Management and technology services	Lanxess-TSRC (Nantong) Chemical Industrial Corporation Limited	1,524	-	849	-
		<u>\$ 89,425</u>	<u>63,009</u>	<u>56,256</u>	<u>49,328</u>

The service revenue and receivables from the above transactions were included in non-operating income and gains—other income and other financial assets—current, respectively.

#### 3.Guarantees

As of December 31, 2011 and 2010, TSRC's guarantees for bank loans of investees were as follows:

	Dec.31, 2011	Dec.31, 2010
TSRC (Nantong) Industries Ltd.	\$ 757,250	728,250
TSRC-UBE (Nantong) Chemical Industrial Corporation Limited	666,380	640,860
TSRC (Jinan) Industries Ltd.	68,153	65,543
TSRC (USA) Investment Corporation	3,180,450	-
Lanxess-TSRC (Nantong) Chemical Industrial Corporation Limited	718,886	-
	<u>\$ 5,391,119</u>	<u>1,434,653</u>

#### 4.Reimbursements

	Dec.31, 2011	Dec.31, 2010
Trimurti Holding Corporation	\$ 2,792	-
TSRC (Jinan) Industries Ltd.	2,507	-
	<u>\$ 5,299</u>	<u>-</u>

The reimbursements above were included in other financial assets—current. There was no such transaction at December 31, 2010.



#### 5. Property transactions

(i) In 2005, TSRC sold for \$30,375 thousand to Shin Dah Development Corporation Limited the long-term investments in Hsin-Yung Enterprise Corp. with carrying value of \$13,207 thousand, which resulted in unrealized inter-company gain from the disposal of long-term investments of \$7,726 thousand. Such unrealized gain was accounted for as other liabilities—others. As Shin Dah Development Corporation Limited was liquidated as of December 23, 2010, the said unrealized gain of \$7,726 thousand was transferred on liquidation to non-operating income-disposal of long-term investments, net.

(ii) In 2000, TSRC sold for \$207,108 thousand to Dymas Corporation the investments in Asia Pacific Energy Development Co., Ltd. With carrying value of \$167,202 thousand, which resulted in unrealized inter-company gain from the disposal of long-term investments of \$39,978 thousand.

In 2010, Asia Pacific Energy Development Co., Ltd., Equity investee, reduced its capital, and unrealized gain from this transaction of \$29,772 thousand was recognized proportionally. As of December 31, 2011 and 2010, unrealized gain resulting from the disposal of long-term investments amounted to \$10,206 thousand, which was accounted for as other liabilities—others.

(iii) In 2011, TSRC sold machinery and equipment to TSRC (shanghai) industries Ltd. The selling price was \$11,340 thousand and gain on disposal was \$280 thousand, which was accounted for as non-operating income and gains—other income. As of December 31, 2011, the amount of accounts receivables resulting from the above transaction was 11,340 thousand, which was accounted for other financial assets—current. There was no such transaction as of December 31, 2010.

#### 6. Others

(i) In July 2004, TSRC entered into a lease contract for the Duen Nan office building with Continental Engineering Corporation, and the lease period is from August 2004 to October 2012. In November 2004, TSRC began to receive rental income. As of December 31, 2011 and 2010, TSRC received rental deposits both amounting to \$821 thousand. Rental income for the years ended December 31, 2011 and 2010 amounted to \$3,630 thousand and \$3,478 thousand, respectively, included in non-operating income and gains—rental income. As of December 31, 2011 and 2010, there was no outstanding account receivable from this lease.

(ii) In 2010, TSRC entered into a lease contract for the Duen Nan office building with Continental Engineering Corporation. As of December 31, 2010, TSRC paid a deposit of \$1,364 thousand, which was recorded as other financial assets—noncurrent. As of December 31, 2011, such lease deposit has been collected. For the years ended December 31, 2011 and 2010, rental expense amounted to \$5,657 thousand and \$4,582 thousand respectively, included in operating expenses. As of December 31, 2011 and 2010, unpaid rental amounted to \$105 thousand and \$205 thousand, respectively, which was recorded as accrued expenses and other current liabilities.

(iii) For the years ended December 31, 2011 and 2010, CEC Security Corporation provided security services to and billed TSRC for service fee of \$5,547 thousand and \$5,561 thousand, respectively, which was charged to cost of sales and operating expenses. As of December 31, 2011 and 2010, unpaid service fees amounted to \$947 thousand and \$1,505 thousand, respectively, which were recorded as accrued expenses and other current liabilities.

(iv) TSRC provided technology as capital injection in TSRC (Nantong) Industries Ltd. and TRC—UBE (Nantong) Chemical Industrial Corporation Limited. Such revenue from technology provided as equity investment was deferred until such revenue is realized through the Investee's amortization over its useful life. For the years ended December 31, 2011 and 2010, revenue from technology provided as equity investment was amortized and recorded as non-operating revenue—other revenue as follows:

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
TSRC (Nantong) Industries Ltd.	\$ 13,306	13,306
TSRC-UBE (Nantong) Chemical Industrial Corporation Limited	3,235	3,235
	<u>\$ 16,541</u>	<u>16,541</u>

#### 7. Directors, supervisors and top management compensation

As of December 31, 2011 and 2010, the compensation to TSRC's directors, supervisors and top management was as follows:

	<u>2011</u>	<u>2010</u>
Salaries	\$ 65,630	51,365
Cash awards and special allowances	13,566	10,809
Transportation allowances and business expense	4,056	3,730
Employees' bonus	3,741	2,487

For the details of the above amounts, including estimated employees' bonus and directors' and supervisors' emoluments, please see note 4(m).

## 6. Pledged Assets

Pledged assets	Purpose	Dec.31, 2011	Dec.31, 2010
Property, plant and equipment—land	Guarantee for long-term debts	\$ 175,850	175,850
Idle assets—land	Guarantee for long-term debts	120,221	120,221
Rental assets—land	Guarantee for long-term debts	81,444	81,444
Buildings and structures	Guarantee for long-term debts	146,706	155,648
		<u>\$ 524,221</u>	<u>533,163</u>

## 7. Significant Commitments and Contingencies

(a) As of December 31, 2011 and 2010, unused letters of credit issued for purchases of materials and equipment amounted to \$1,939,649 thousand and \$1,464,219 thousand, respectively.

(b) TSRC Signed construction and design contracts with several factories totaling \$99,547 thousand, of which \$54,284 thousand was paid.

## 8. Significant Losses from Calamity: none

## 9. Significant Subsequent Events: none

## 10. Others

(a) For the years ended December 31, 2011 and 2010, the employment expenses, depreciation and amortization, summarized by function, were as follows:

By function By nature	2011			2010		
	Cost of goods sold	Operating expenses	Total	Cost of goods sold	Operating expenses	Total
Personnel expenses						
Salaries and wages	388,471	293,569	682,040	368,837	224,461	593,298
Labor and health insurance	23,036	16,599	39,635	20,501	12,686	33,187
Pension (note 1)	23,936	14,602	38,565	20,970	10,650	31,620
Other personnel expenses (note 2)	92,843	82,437	175,280	60,788	48,729	109,517
Depreciation (notes 3)	132,882	34,076	166,958	196,647	30,836	227,483
Amortization	—	11,044	11,044	—	—	—

Note 1: Pension expenses excluded expenses for employees on international assignments amounting to \$1,631 thousand and \$2,086 thousand for the years ended December 31, 2011 and 2010, respectively.

Note 2: Other personnel expenses included meals, employee welfares, training expense and employees' bonus.

Note 3: Depreciation expense for lease and idle assets was excluded. For the years ended December 31, 2011 and 2010, the depreciation expense for lease and idle assets amounted to \$35,161 thousand and \$60,302 thousand, respectively.

### (b) Acquisition of Dexco Polymers LP and Dexco Polymers Operating Company LLC (Dexco and Dexco LLC hereafter):

TSRC invested in TSRC (USA) Investment Corporation (founded on January 27, 2011) via Trimurti Holding Corporation purposely to purchase Dexco in Louisiana, USA. The transaction date of this business acquisition was effective April 1, 2011. The major business of Dexco is manufacturing and selling SIS and SBS products and its main customers are located in the United States and Europe. The accounting of this business acquisition was in compliance with SFAS No.25 "Business Combination". The difference between purchase price and fair value of identifiable asset was recognized as goodwill. TSRC's purchase price and goodwill were calculated as follows (expressed in thousands of USD):

	Amount
The purchase price	\$ 192,617
Less: The fair value of recognized assets:	
Trademark (note)	4,200
Patent(note)	15,700
Know-how (note)	27,600
Non compete (note)	300
Emission rights (note)	395
Working capital	33,549
Fixed assets	30,285
Inventories	37,819
	<u>149,848</u>
Goodwill	<u>\$ 42,769</u>

Note: The estimation of fair value of intangible assets was based on the report of American Appraisal issued on August 10, 2011.

#### (c)Reclassification

Certain amounts in the financial statements for the year ended December 31, 2010, have been reclassified to conform to the presentation of the financial statement for the year ended December 31, 2011, for purposes of comparison. These reclassifications disclosed no significant impact on the presentation of the financial statements.

## 11.Supplementary Disclosure Requirements

#### (a)Substantial transactions:

1.Loans extended to other parties: None.

2.Guaranty provided to other parties:

No. (Note 1)	Corporation name	Object		The maximum guaranty credit line for one party	The maximum amount for guaranty	Balance as of 2011.12.31	Secured guaranty amount	The proportion of accumulated guarantee amounts to the Corporation's net equity	The maximum guaranty credit lines
		Name	Nature of relationship (Note 2)						
0	The Corporation	TSRC (USA) Investment Corporation	3	50% of the Corporation's issued share capital (\$3,574,502)	3,180,450 (USD105,000,000)	3,180,450 (USD105,000,000)	—	18.53%	1.5 times the Corporation's total stockholders' equity (\$25,751,175)
0	The Corporation	TSRC (Nantong) Industries Ltd.	3		757,250 (USD25,000,000)	757,250 (USD25,000,000)	—	4.41%	
0	The Corporation	TSRC-UBE (Nantong) Chemical Industrial Corporation Limited	3		666,380 (USD22,000,000)	666,380 (USD22,000,000)	—	3.88%	
0	The Corporation	TSRC (Jinan) Industries Ltd.	3		68,153 (USD2,250,000)	68,153 (USD2,250,000)	—	4.00%	
0	The Corporation	Lanxess-TSRC (Nantong) Chemical Industrial Corporation Limited	6		718,886 (RMB 40,000) (USD17,400,000)	718,886 (RMB 40,000) (USD17,400,000)	—	4.19%	

Note 1: The information about endorsement/guarantee of the Company and subsidiaries is numbered as following:

1.0 for the Company.

2. Subsidiaries are numbered in Arabic numeric order as of 1.

Note 2: Relationship between the endorsed/guaranteed and the Company:

1. Companies that have transactions with the Company.
2. Subsidiaries where the Company has direct holdings of more than 50% of the common shares.
3. The investee of which the total common shares held by parent company and subsidiaries are more than 50% .
4. Parent company that holds more than 50% common shares directly, or indirectly via subsidiaries.
5. Companies that shall provide guarantee mutually pursuant to contracts in the same trade to meet the requirement for construction contracts.
6. Companies endorsed and guaranteed by shareholders subject to their respective shareholdings due to the joint venture.

**3. Securities held as of December 31, 2011:**

Name of the security holder	Type of security	Name of security	Nature of relationship	Recorded account	December 31, 2011				Remarks
					Unit	Book value	Holding percentage	Market price (net equity)	
The Corporation	Commercial Paper	Repurchase securities	—	Cash and cash equivalents	—	<u>1,354,442</u>	—	<u>1,354,442</u>	—
The Corporation	Stock	Trimurti Holding Corporation (Note 3)	Subsidiary	Investments accounted for by the equity method	86,920,000	10,033,423	100.00%	10,052,048	—
The Corporation	Stock	Hardison International Corporation	Subsidiary	Investments accounted for by the equity method	4,419,305	410,700	100.00%	410,700	—
The Corporation	Stock	Dymas Corporation	Subsidiary	Investments accounted for by the equity method	1,287,624	73,820	19.48%	73,820	(Note 1)
		Subtotal				<u>10,517,943</u>		<u>10,536,568</u>	
The Corporation	Stock	Taiwan High Speed Rail Corp.	—	Investments carried at cost	50,000,000	500,000	0.77%	(Note 2)	—
The Corporation	Stock	Wei Dah Investment Co., Ltd.	—	Investments carried at cost	21,600,000	244,073	18.00%	(Note 2)	—
The Corporation	Stock	Evergreen Development Corp.	—	Investments carried at cost	12,148,000	209,878	2.97%	(Note 2)	—
The Corporation	Stock	Thai Synthetic Rubbers Co., Ltd.	—	Investments carried at cost	599,999	65,143	5.42%	(Note 2)	—
The Corporation	Stock	Hsin-Yung Enterprise Corp.	—	Investments carried at cost	5,657,000	64,296	3.90%	(Note 2)	—
		Subtotal				<u>1,083,390</u>			

Note 1: The Corporation directly owns 19.48% of the company's equity and indirectly owns 80.52% via Hardison International Corporation.

Note 2: Neither public market price nor financial statements provided by the investees were available for estimation of net equity.

**4. Accumulated holding amount of a single security in excess of \$100 million or 20% of TSRC's issued share capital:**

Unit: NT\$ in thousands / shares in thousands

Corporation name	Marketable securities type and name	Financial statement account	Name of the counter-party	Relationship with the Corporation	Beginning balance		Acquisition		Disposal				Loss on valuation	Ending balance	
					Shares	Amount	Shares	Amount	Shares	Selling price	Carrying value	Gains (losses) on disposal		Shares	Amount
The Corporation	PCA Well Pool Money Market Fund	Available -for-sale financial assets - current	PCA Securities Investment Trust Co., Ltd.	—	—	—	11,495,515.50	150,000	11,495,515.50	150,287	150,000	287	—	—	—
The Corporation	Fubon chi-Hsiang Money Market Fund	Available -for-sale financial assets - current	Fubon Asset Management Co., Ltd.	—	—	—	13,235,774.20	200,000	13,235,774.20	200,218	200,000	218	—	—	—
The Corporation	KGI Victory Money Market Fund	Available -for-sale financial assets - current	KGI Securities Investment Trust Co., Ltd.	—	—	—	17,963,641.63	200,000	17,963,641.63	200,465	200,000	465	—	—	—
The Corporation	Union Money Market Fund	Available -for-sale financial assets - current	Union Securities Investment Trust Co., Ltd.	—	—	—	15,780,462.26	200,000	15,780,462.26	200,480	200,000	480	—	—	—
The Corporation	Yuanta Money Market Fund	Available -for-sale financial assets - current	Yuanta Securities Investment Trust Co., Ltd.	—	—	—	9,621,829.30	140,000	9,621,829.30	140,167	140,000	167	—	—	—

**5. Acquisition of real estate in excess of \$100 million or 20% of TSRC's issued share capital: None.**

**6. Disposal of real estate in excess of \$100 million or 20% of TSRC's issued share capital: None.**

**7. Sales to and purchases from related parties in excess of \$100 million or 20% of TSRC's issued share capital: None**

**8. Receivables from related parties in excess of \$100 million or 20% of TSRC's issued share capital: None**

**9. Financial derivative instruments transactions: None.**

**(b) Investee information:****1. Relevant information about investees:**

Name of investor	Name of investee	Address	Scope of business	Original cost		The Corporation's ownership as of Dec. 31, 2011			Net income (loss) of the investee	Investment income (loss) recognized by the Corporation	Remarks
				December 31, 2011	December 31, 2010	Shares	Percentage	Book value			
The Corporation	Trimurti Holding Corporation	Palm Grove House, P.O.BOX 438, Road Town, Tortola B.V.I	Investment Corporation	1,005,495	1,005,495	86,920,000	100.00%	10,033,423	3,478,833	3,481,592	Subsidiary corporation
The Corporation	Hardison International Corporation	Palm Grove House, P.O.BOX 438, Road Town, Tortola B.V.I	Investment Corporation	125,142	125,142	4,419,305	100.00%	410,700	36,108	36,108	Subsidiary corporation
The Corporation	Dymas Corporation	Palm Grove House, P.O.BOX 438, Road Town, Tortola B.V.I	Investment Corporation	42,170	42,170	1,287,624	19.48%	73,820	38,761	7,551	Subsidiary corporation
Trimurti Holding Corporation	Polybus Corporation Pte. Ltd.	9, Temasek Boulevard, 31F Suntec Tower 2, Singapore 038989	International commerce and trading	USD 65,101,000	USD 65,101,000	105,830,000	100.00%	8,719,484	3,324,714	3,348,386 (Note 1)	Indirectly owned subsidiary
Trimurti Holding Corporation	TSRC (HONG KONG) Limited.	Suite 2303 23F Great Eagle Centre 23 Harbour Road Wanchai HK	Investment Corporation	USD 7,800,000	USD 7,800,000	7,800,000	100.00%	281,907	6,027	6,027 (Note 1)	Indirectly owned subsidiary
Trimurti Holding Corporation	Indian Synthetic Rubber Limited	Room No.702, Indian Oil Bhawan, 1 Sri Aurobindo Marg, Yusuf Sarai, New Delhi-110016, India	Production and sale of SBR synthetic rubber	USD 11,757,366	USD 3,209,929	56,250,000	30.00%	314,484	(24,877)	(7,463)	-
Trimurti Holding Corporation	TSRC(USA) Investment Corporation	2711Centerville Road, Suite 400, Country of New Castle, Wilmington, Delaware.19808.	Investment Corporation	USD 70,050,000	-	100	100.00% (Note 2)	2,330,991	203,499	203,499 (Note 1)	Indirectly owned subsidiary
TSRC(USA) Investment Corporation	Dexco Polymers LP	12012 Wickchester Lane, Suite 200, Houston, TX 77079	Production and sale of synthetic rubber products	USD 192,616,912	USD -	100	100.00% (Note 2)	2,566,516	482,458	384,464 (Note 1)	Indirectly owned subsidiary
TSRC (HONG KONG) Limited.	TSRC (Shanghai) Industries Ltd.	No. 1406, Yu Shu Road, Hi-tech Park Songjiang Zone, Shanghai, P.R.C.	Production and sale of compounding materials	USD 5,500,000	USD 5,500,000	5,500,000	100.00%	250,657	8,831	8,831 (Note 1)	Indirectly owned subsidiary
TSRC (HONG KONG) Limited.	TSRC(Lux.) Corporation S. a. r. l.	37, rue d'Anvers, L1130 Luxembourg	International commerce and trading	EUR 800,000	-	800,000	100.00%	19,156	(12,567)	(12,567)	Indirectly owned subsidiary
TSRC (HONG KONG) Limited.	TSRC (Jinan) Industries Ltd.	No. 666 LinGang St., Yao Qiang Town, Li Cheng Zone, Jinan City, Shan Dong, P.R.C.	Production and sale of compounding materials	USD 2,250,000	USD 2,250,000	2,250,000	100.00%	(30,696)	10,162	10,162 (Note 1)	Indirectly owned subsidiary
Polybus Corporation Pte. Ltd.	TSRC (Nantong) Industries Ltd.	No. 22 Tong Wang Road, Nantong Economic & Technological Development Area, Nantong Jiangsu, P.R.C.	Production and sale of SEBS	USD 43,885,000	USD 41,025,000	43,885,000	100.00%	2,087,239	452,241	452,241 (Note 1)	Indirectly owned subsidiary
Polybus Corporation Pte. Ltd.	TSRC-UBE (Nantong) Chemical Industries Company. Ltd.	No. 22 Tong Wang Road, Nantong Economic & Technological Development Area, Nantong Jiangsu, P.R.C.	Production and sale of BR	USD 22,000,000	USD 22,000,000	22,000,000	55.00%	1,499,679	1,055,278	580,403 (Note 1)	Indirectly owned subsidiary
Polybus Corporation Pte. Ltd.	Shen Hua Chemical Industrial Co., Ltd.	NO.1 Shen Hua Road, Nantong Economic & Technology Development Area, Nantong Jiangsu, P.R.C.	Production and sale of SBR	USD 19,867,016	USD 19,867,016	26,974,368	65.44%	4,203,932	3,647,159	2,386,701 (Note 1)	Indirectly owned subsidiary
Polybus Corporation Pte. Ltd.	Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd.	NO.1 Shen Hua Road, Nantong Economic & Technology Development Area, Nantong Jiangsu, P.R.C.	Production and sale of NRB	USD 12,400,000	USD 7,000,000	12,400,000	50.00%	381,238	(10,196)	(5,098) (Note 1)	-
Hardison International Corporation	Triton International Holdings Corporation	Palm Grove House, P.O.BOX 438, Road Town, Tortola B.V.I	Investment Corporation	USD 50,000	USD 50,000	50,000	100.00%	101,261	4,132	4,132 (Note 1)	Indirectly owned subsidiary
Hardison International Corporation	Dymas Corporation	Palm Grove House, P.O.BOX 438, Road Town, Tortola B.V.I	Investment Corporation	USD 5,321,946	USD 5,321,946	5,321,946	80.52%	305,133	38,761	32,198 (Note 1)	Indirectly owned subsidiary

Name of investor	Name of investee	Address	Scope of business	Original cost		The Corporation's ownership as of Dec. 31, 2011			Net income (loss) of the investee	Investment income (loss) recognized by the Corporation	Remarks
				December 31, 2011	December 31, 2010	Shares	Percentage	Book value			
Hardison International Corporation	TSRC Biotech Ltd.	4th Fl., Harbour Centre, P.O.BOX613, George Town, Grand Cayman	Investment Corporation	USD 3,020,210	USD 3,020,210	3,020,210	100.00%	30	(168)	(168) (Note 1)	Indirectly owned subsidiary
Triton International Holdings Corporation	Nantong Qix Storage Co., Ltd.	No. 111 He Xing Road, Nantong Economic & Technological Development Area, Nantong, Jiangsu, P.R.C.	Chemical storage management	USD 1,500,000	USD 1,500,000	1,500,000	50.00%	91,714	8,265	4,133 (Note 1)	Indirectly owned subsidiary
Dymas Corporation	Asia Pacific Energy Development Co., Ltd.	Cayman Islands	Consulting for electric power facilities management and electrical system design	USD 11,939,238	USD 11,939,238	8,176,453	37.78%	309,746	14,302	38,837 (Note 1)	-

Note 1: note 1: Investment income (loss) of the indirectly owned subsidiaries was recognized in current income (loss) of the holding company.

Note 2: TSRC (USA) Investment Corporation is limited partner of Dexco LLC and Dexco Polymers LP. Also, TSRC (USA) Investment Corporation invested Dexco LLC as general partner of Dexco Polymers LP. Because Dexco LLC does not have real operation, the related information of Dexco LLC is not disclosed.

**2. Loans extended to other parties: None.**

**3. Guaranty provided to other parties: None.**

**4. Securities held as of December 31, 2011:**

Name of the security holder	Type of security	Name of security	Nature of relationship	Recorded account	December 31, 2011				Remarks
					Unit	Book value	Holding percentage	Market price (net equity)	
Trimurti Holding Corporation	Stock	Polybus Corporation Pte. Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	105,830,000	8,719,484	100.00%	8,716,754	-
Trimurti Holding Corporation	Stock	TSRC (HONG KONG) Limited.	Investee accounted for by the equity method	Investments accounted for by the equity method	7,800,000	281,907	100.00%	281,907	-
Trimurti Holding Corporation	Stock	Indian Synthetic Rubber Limited	Investee accounted for by the equity method	Investments accounted for by the equity method	56,250,000	314,484	30.00%	314,484	-
Trimurti Holding Corporation	Stock	TSRC (USA) Investment Corporation	Investee accounted for by the equity method	Investments accounted for by the equity method	100	2,330,991	100.00%	2,330,991	-
TSRC (USA) Investment Corporation	Certificate of ownership	Dexco Polymers LP.	Investee accounted for by the equity method	Investments accounted for by the equity method	100	2,566,516	100.00%	2,566,516	-
TSRC (HONG KONG) Limited.	Certificate of ownership	TSRC (Shanghai) Industries Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	5,500,000	250,657	100.00%	250,657	-
TSRC (HONG KONG) Limited.	Certificate of ownership	TSRC (Lux.) Corporation S.' a. r. l.	Investee accounted for by the equity method	Investments accounted for by the equity method	800,000	19,156	100.00%	19,156	-
TSRC (HONG KONG) Limited.	Certificate of ownership	TSRC (Jinan) Industries Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	2,250,000	(30,696)	100.00%	(30,696)	-
Polybus Corporation Pte. Ltd.	Certificate of ownership	TSRC (Nantong) Industries Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	43,885,000	2,087,239	100.00%	2,087,239	-
Polybus Corporation Pte. Ltd.	Certificate of ownership	TSRC-UBE (Nantong) Chemical Industrial Co. Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	22,000,000	1,499,679	55.00%	1,499,679	-
Polybus Corporation Pte. Ltd.	Certificate of ownership	Shen Hua Chemical Industrial Co. Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	26,974,368	4,203,932	65.44%	4,187,017	-
Polybus Corporation Pte. Ltd.	Certificate of ownership	Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	12,400,000	381,238	50.00%	381,238	-
Hardison International Corporation	Stock	Triton International Holdings Corporation	Investee accounted for by the equity method	Investments accounted for by the equity method	50,000	101,261	100.00%	101,261	-
Hardison International Corporation	Stock	Dymas Corporation	Investee accounted for by the equity method	Investments accounted for by the equity method	5,321,946	305,133	80.52%	305,133	-
Hardison International Corporation	Stock	TSRC Biotech Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	3,020,210	30	100.00%	30	-



Name of the security holder	Type of security	Name of security	Nature of relationship	Recorded account	December 31, 2011				Remarks
					Unit	Book value	Holding percentage	Market price (net equity)	
TSRC Biotech Ltd.	Preferred stock	Pulse Meteric Inc.	—	Investments carried at cost	312,500	—	6.23%	(Note 1)	—
TSRC Biotech Ltd.	Stock	CytoPharm, Inc.	—	Investments carried at cost	95,108	—	0.30%	(Note 1)	—
Dymas Corporation	Stock	Thai Synthetic Rubbers Co., Ltd.	—	Investments carried at cost	837,552	57,828	7.57%	(Note 1)	—
Dymas Corporation	Stock	Asia Pacific Energy Development Co., Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	8,176,453	309,746	37.78%	309,746	—
Triton International Holdings Corporation	Certificate of ownership	Nantong Qix Storage Co., Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	1,500,000	91,714	50.00%	91,714	—

Note 1: No public market price was available and no financial statements provided by the investees for purposes of estimating the net equity.

**5. Accumulated holding amount of a single security in excess of \$100 million or 20% of TSRC's issued share capital:**

Corporation name	Marketable securities type and name	Financial statement account	Name of the counter-party	Relationship with the Corporation	Beginning balance		Acquisition		Disposal			Ending balance		
					Shares	Amount	Shares	Amount	Shares	Selling price	Carrying value	Gains (losses) on disposal	Shares	Amount
Trimurti Holding Corporation	TSRC (USA) Investment Corporation	Investee accounted for by the equity method	New Corporation	—	—	—	100	2,060,731	—	—	—	—	100	2,060,731
Trimurti Holding Corporation	Indian Synthetic Rubber Limite	Investee accounted for by the equity method	—	—	15,000,000	102,837	41,250,000	250,327	—	—	—	—	56,250,000	353,614

**6. Acquisition of real estate in excess of \$100 million or 20% of TSRC's issued share capital: None.**

**7. Disposal of real estate in excess of \$100 million or 20% of TSRC's issued share capital: None.**

**8. Sales to and purchases from related parties in excess of \$100 million or 20% of TSRC's issued share capital:**

Purchasing (selling) company	Counter-party	Relationship	Details of transaction				The status and reason for deviation from regular transaction		Accounts (notes) receivable (payable)		Remarks
			Nature	Amount	% of total purchases (sales)	Credit period	Unit price	Credit period	Balance	% of accounts (notes) receivable (payable)	
TSRC-UBE (Nantong) Chemical Industrial Co., Ltd.	Marubeni Corporation	A director of TSRC UBE (Nantong) Chemical Industrial Co., Ltd.	Purchase	1,224,841	22.12%	30 days after shipping	—	—	(126,130)	(36.38)%	
Shen Hua Chemical Industrial Co. Ltd.	Marubeni Corporation	A director of Shen Hua Chemical Industrial Co. Ltd.	Purchase	1,356,227	9.14%	14 days	—	—	(150,440)	(32.77)%	
Shen Hua Chemical Industrial Co. Ltd.	A director of TSRC UBE (Nantong) Chemical Industrial Co., Ltd.	Related Parties.	Sale	(161,170)	(0.08)%	Pay off before shipping	—	—	—	—	
Shen Hua Chemical Industrial Co. Ltd.	TSRC (Nantong) Industries Ltd.	Related Parties.	Sale	(253,566)	(1.25)%	Pay off before shipping	—	—	—	—	



Purchasing (selling) company	Counter-party	Relationship	Details of transaction				The status and reason for deviation from regular transaction		Accounts (notes) receivable (payable)		Remarks
			Nature	Amount	% of total purchases (sales)	Credit period	Unit price	Credit period	Balance	% of accounts (notes) receivable (payable)	
Shen Hua Chemical Industrial Co. Ltd.	Polybus Corporation Pte Ltd.	Related Parties.	Sale	(364,189)	(1.80)%	10 days	—	—	4,447	0.13%	
TSRC-UBE (Nantong) Chemical Industrial Co., Ltd.	Shen Hua Chemical Industrial company Ltd.	Related Parties.	Purchase	161,170	2.91%	Pay off before shipping	—	—	—	—	
TSRC (Nantong) Industries Ltd.	Shen Hua Chemical Industrial company Ltd.	Related Parties.	Purchase	253,566	14.19%	Pay off before shipping	—	—	—	—	
Polybus Corporation Pte Ltd.	Shen Hua Chemical Industrial company Ltd.	Related Parties.	Purchase	364,189	23.65%	10 days	—	—	(4,447)	(1.46)%	
Polybus Corporation Pte Ltd.	TSRC (Nantong) Industries Ltd.	Related Parties.	Purchase	960,967	62.39%	40 days	—	—	(207,524)	(67.97)%	
TSRC (Nantong) Industries Ltd.	Polybus Corporation Pte Ltd.	Related Parties.	Sale	(960,967)	(32.26)%	40 days	—	—	207,524	59.12%	

**9.Receivables from related parties in excess of \$100 million or 20% of TSRC's issued share capital:**

Unit: in thousands of New Taiwan dollars

Corporation name	Counter-party	Relationship	Amount	Turnover	Overdue Amount		Subsequent receivable amount	Allowance for Uncollectible accounts
					Amount	Processing		
TSRC (Nantong) Industries Ltd.	Polybus Corporation Pte Ltd.	Related Parties.	207,524	10.42	—	—	204	—

**10.Financial derivative instruments transactions: None.**

**(c) Investment in China:****1. Summary of investment in China:**

Name of investee	Scope of business	Issued capital	Investment method	Accumulated remittance from Taiwan as of January 1, 2010	Amount remitted from or repatriated to Taiwan		Accumulated remittance from Taiwan as of December 31, 2008	Direct or indirect investment holding percentage	Investment income (loss) recognized in 2008 (Note2)	Book value as of Dec. 31, 2008	Accumulated amount repatriated to Taiwan as of Dec. 31, 2008
					Remittance	Repatriation					
Shen Hua Chemical Industrial company Ltd.	Production and sale of synthetic rubber	USD 41,220,000	Invest through third country first and then invest in China	—	—	—	—	65.44%	2,386,701	4,203,932	2,969,295
Wujing Asia Pacific Energy Cogeneration Co., Ltd.	Power generation and sale of electricity and heat	USD 27,130,000	Invest through third country first and then invest in China	116,082 (USD3,832,350)	—	—	116,082 (USD3,832,350)	28.34%	7,280	132,347	—
TSRC (Shanghai) Industries Ltd.	Production and sale of reengineering plastic, plastic compound metal and plastic elasticity engineering products	USD 5,500,000	Invest through third country first and then invest in China	118,737 (USD3,920,000)	—	—	118,737 (USD3,920,000)	100.00%	8,831	250,657	—
Nantong Qix Storage Co., Ltd.	Storehouse for chemicals	USD 3,000,000	Invest through third country first and then invest in China	45,435 (USD1,500,000)	—	—	45,435 (USD1,500,000)	50.00%	4,133	91,714	—
TSRC-UBE (Nantong) Chemical Industrial company Ltd.	Production and sale of synthetic rubber products	USD 40,000,000	Invest through third country first and then invest in China	30,290 (USD1,000,000)	—	—	30,290 (USD1,000,000)	55.00%	580,403	1,499,679	—
TSRC (Nantong) Industries Ltd.	Production and sale of synthetic rubber products	USD 43,885,000	Invest through third country first and then invest in China	201,368 (USD6,648,000)	—	—	201,368 (USD6,648,000)	100.00%	452,241	2,087,239	—
TSRC (Jinan) Industries Ltd.	Production and sale of reengineering plastic, plastic compound metal and plastic elasticity engineering products	USD 2,250,000	Invest through third country first and then invest in China	68,153 (USD2,250,000)	—	—	68,153 (USD2,250,000)	100.00%	10,162	(30,696)	—
Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd.	Production and sale of NBB	USD 24,800,000	Invest through third country first and then invest in China	—	—	—	—	50.00%	(5,098)	381,238	—

**2.Limitation on investment in Mainland China:**

Accumulated remittance from Taiwan to China as of December 31, 2010	Investment amount approved by Investment Commission, Ministry of Economic Affairs	The maximum investment amount set by Investment Commission, Ministry of Economic Affairs
580,064(USD19,150,350)	1,329,075(USD43,878,351)	(Note 3)

Note 1: Foreign currencies in this report were translated based on the exchange rate at balance sheet date.

Note 2: The above related information disclosure was provided by TSRC. The investment amount was approved by the Investment Commission.

Note 3: In accordance with the “Regulations on Permission for Investment or Technical Cooperation in Mainland China” and the “Principles for Examination of Applications for Investment or Technical Cooperation in Mainland China” amended and ratified by the Executive Yuan on August 22, 2008, TSRC met the criteria of operational headquarters under the Statue of Industrial Innovation and obtained the approval from the Industrial Development Bureau, Ministry of Economic Affairs, on September 28, 2010. As it has an operational headquarters status, TSRC is not subject to the limitation as to the amount of investment in Mainland China as of December 31, 2011.

**3.Substantial transactions directly or through third country with investees in China : please refer to note 5.**

**12.Segment Information**

The segment financial information is disclosed in the consolidated financial Statements instead of the stand-alone financial statements of TSRC.

## V.Consolidated Financial statement

### Declaration

The companies to be included by the Company in the consolidated financial statement of affiliated enterprises in 2011 (Jan. 1, 2011- Dec. 31, 2011) pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those to be included into the consolidated financial statement of the parent company and subsidiaries pursuant to the Statements of Financial Accounting Standards No. 7. Further, the related information to be disclosed in the consolidated financial statement of affiliated enterprises has been disclosed in the said consolidated financial statement of parent company and subsidiaries. Accordingly, it is not necessary for the Company to prepare the consolidated financial statement of affiliated enterprises separately.

Declared by:

TSRC Corporation

Chairman: Shao Yu Wang

Date: March 14, 2012

## **Independent Auditors' Report**

### **The Board of Directors**

#### **TSRC Corporation:**

We have audited the consolidated balance sheets of TSRC Corporation (TSRC group) and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of TSRC group's management. Our responsibility is to express an consolidated opinion on these financial statements based on our audits.

We conducted our audits in accordance with the “Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants” and auditing standards generally accepted in the Republic of China. Those regulations and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentations. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial positions of TSRC group as of December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with the “Guidelines Governing the Preparation of Financial Reports by Securities Issuers”, the related financial accounting standards of the “Business Entity Accounting Act” and of the “Regulation on Business Entity Accounting Handling”, and accounting principles generally accepted in the Republic of China.

TSRC group changed its method of valuing inventories commencing from January 1, 2011 and adopted SFAS No.34 “Financial Instruments: Recognition and Measurement” recently revised, which amended the valuation of accounts receivable. The impact of these changes to net income and earnings per share for the year ended December 31, 2011, was discussed in note (3) of notes to consolidated financial statements.

Taipei, Taiwan (the Republic of China)

March 14, 2012

The accompanying financial statements are intended only to present the financial positions, results of operations and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

**TSRC CORPORATION**  
**Consolidated Balance Sheets**  
**December 31, 2011 and 2010**

(expressed in thousands of New Taiwan dollar)

Unit: NT\$1,000

Assets	Dec.31, 2011		Dec.31, 2010	
	Amount	%	Amount	%
<b>Current assets:</b>				
Cash and cash equivalents (note 4(a))	\$ 6,055,884	16	4,096,374	16
Available-for-sale financial assets – current (note 4(b))	–	–	81,779	–
Notes receivable (note 4(c))	2,493,559	6	1,102,901	5
Accounts receivable (note 4(c))	5,937,012	15	4,083,464	16
Other financial assets – current (note 5)	304,657	1	117,928	–
Inventories (note 4(d))	7,040,206	18	3,593,948	15
Prepayments and other current assets (note 4(n))	379,875	1	662,808	3
<b>Total current assets</b>	<b>22,211,193</b>	<b>57</b>	<b>13,739,202</b>	<b>55</b>
<b>Funds and investments :</b>				
Financial assets carried at cost – noncurrent (note 4(b))	1,141,218	3	1,283,004	5
Investments accounted for by the equity method (note 4(e))	1,005,468	3	572,070	2
<b>Total funds and investments</b>	<b>2,146,686</b>	<b>6</b>	<b>1,855,074</b>	<b>7</b>
Other financial assets – noncurrent (notes 5 and 6)	78,279	–	55,362	–
<b>Property, plant and equipment (notes 4(f), 6 and 7):</b>				
Costs:				
Land	286,262	1	286,262	1
Land improvements	77,113	–	54,204	–
Buildings	3,570,512	9	3,385,311	13
Machinery and equipment	15,390,953	40	11,438,030	46
Transportation equipment	30,039	–	23,911	–
Furniture and fixtures	610,869	2	549,250	2
Leased assets	94,596	–	94,596	–
Revaluation increment	434,913	1	434,913	2
Total cost and revaluation increment	20,495,257	53	16,266,477	64
Less: accumulated depreciation	12,732,068	33	9,391,830	37
Accumulated impairment	91,264	–	93,598	–
Construction in progress and prepayments for machinery and equipment	1,051,615	3	206,388	1
<b>Net property, plant and equipment</b>	<b>8,723,540</b>	<b>23</b>	<b>6,987,437</b>	<b>28</b>
<b>Intangible assets (notes 4(g), (l) and 6):</b>				
Deferred pension cost	26,418	–	31,703	–
Intangible assets	3,330,028	9	381,773	2
<b>Total intangible assets</b>	<b>3,356,446</b>	<b>9</b>	<b>413,476</b>	<b>2</b>
<b>Other assets (notes 4(h), (n) and 6):</b>				
Rental assets	1,780,844	5	1,795,569	8
Idle assets	120,221	–	120,221	–
Other assets – others	125,365	–	115,957	–
<b>Total other assets</b>	<b>2,026,430</b>	<b>5</b>	<b>2,031,747</b>	<b>8</b>
<b>Total assets</b>	<b>\$ 38,542,574</b>	<b>100</b>	<b>25,082,298</b>	<b>100</b>

See accompanying notes to financial Statements

(Continued)

Liabilities and Stockholders' Equity	Dec.31, 2011		Dec.31, 2010	
	Amount	%	Amount	%
Unit: NT\$1,000				
<b>Current liabilities:</b>				
Short-term borrowings (notes 4(i) and 6)	\$ 5,101,364	13	3,559,134	14
Short-term commercial papers payable (note 4(j))	249,601	1	—	—
Notes and accounts payable	2,334,318	6	1,560,162	6
Accounts payable—related parties (note 5)	276,570	1	317,091	1
Income tax payable	834,521	2	513,641	2
Long-term debts—current portion (notes 4(k) and 6)	1,067,183	3	875,151	3
Accrued expenses and other current liabilities (notes 4(f) and 5)	1,338,632	3	1,061,579	5
<b>Total current liabilities</b>	<b>11,202,189</b>	<b>29</b>	<b>7,886,758</b>	<b>31</b>
<b>Long-term interest-bearing liabilities:</b>				
Long-term debts (notes 4(k) and 6)	5,088,720	13	1,037,357	4
<b>Other liabilities:</b>				
Reserve for land value increment tax	56,683	—	56,683	—
Accrued pension liability (note 4(l))	143,648	1	149,344	1
Returnable deposits (note 5)	92,647	—	75,650	—
Deferred income tax liabilities (note 4(n))	1,124,831	3	555,467	2
Other liabilities—others (notes 4(f) and 5)	140,922	—	153,123	1
<b>Total other liabilities</b>	<b>1,558,731</b>	<b>4</b>	<b>990,267</b>	<b>4</b>
<b>Total liabilities</b>	<b>17,849,640</b>	<b>46</b>	<b>9,914,382</b>	<b>39</b>
<b>Stockholders' equity (notes 4(b), (l), (m) and (n)):</b>				
Capital:				
Common stock	7,149,004	19	6,499,095	26
Capital surplus:				
Additional paid—in capital	849	—	849	—
Others	68,154	—	68,154	—
	69,003	—	69,003	—
Retained earnings:				
Legal reserve	2,523,529	7	2,195,612	9
Unappropriated earnings	6,461,223	16	3,971,967	16
	8,984,752	23	6,167,579	25
Other equity adjustments:				
Accumulated translation adjustments	1,002,365	3	257,903	1
Net loss not yet recognized as net pension cost	(44,940)	—	(48,156)	—
Unrealized gains (losses) on financial instruments	—	—	5,980	—
Reserve for asset revaluation increment	7,266	—	7,266	—
	964,691	3	222,993	1
Minority interests	3,525,484	9	2,209,246	9
<b>Total stockholders' equity</b>	<b>20,692,934</b>	<b>54</b>	<b>15,167,916</b>	<b>61</b>
<b>Significant commitments and contingencies (note 5 and 7)</b>				
<b>Total liabilities and stockholders' equity</b>	<b>\$ 38,542,574</b>	<b>100</b>	<b>25,082,298</b>	<b>100</b>

See accompanying notes to financial Statements

Chairman :Shao Yu Wang

Manager :Wei-Hua Tu

Chief Accountant :John Chen

**TSRC Corporation**  
**Consolidated Statements of Operations**  
**For the years ended December 31, 2011 and 2010**  
**(expressed in thousands of New Taiwan dollars)**

Unit: NT\$1,000

	2011		2010	
	Amount	%	Amount	%
<b>Operating revenue</b>				
Gross sales	\$ 55,040,554	100	36,625,498	100
Less: sales returns	4,173	—	4,977	—
sales discounts	13,506	—	214	—
<b>Net sales</b>	55,022,875	100	36,620,307	100
<b>Other operating income</b>	52,443	—	65,401	—
	55,075,318	100	36,685,708	100
<b>Operating cost (notes 4(d), (g), (l), (m), 5 and 10):</b>				
Cost of sales	42,586,325	77	30,064,619	82
Other operating cost	34,943	—	35,583	—
	42,621,268	77	30,100,202	82
<b>Gross profit</b>	12,454,050	23	6,585,506	18
<b>Operating expenses (notes 4(g), (l), (m), 5 and 10) :</b>				
Selling expenses	902,631	2	723,646	2
General and administrative expenses	929,867	2	661,708	2
Research and development expenses	320,928	1	169,153	—
	2,153,426	5	1,554,507	4
<b>Operating income</b>	10,300,624	18	5,030,999	14
<b>Non-operating income and gains:</b>				
Interest income	68,156	—	17,631	—
Investment income, net, accounted for by the equity method (note 4(e))	26,276	—	50,964	—
Dividend income (note 4(b))	100,574	—	71,567	—
Gains on valuation of financial assets, net (note 4(b))	—	—	2,168	—
Gains on disposal of investments, net (notes 4(b), (e) and 5)	7,962	—	36,997	—
Gains on disposal of assets, net	—	—	19,434	—
Foreign exchange gains, net	182,989	—	55,974	—
Rental income (note 5)	72,579	—	72,534	—
Other income (note 5)	69,719	—	192,567	—
	528,255	—	519,836	—
<b>Non-operating expenses and losses:</b>				
Interest expenses	205,794	—	164,405	—
Loss on disposal of assets, net	9,044	—	—	—
Other expenses	175,195	—	131,614	—
	390,033	—	296,019	—
<b>Earnings before cumulative effect of changes in accounting principles and income tax</b>	10,438,846	18	5,254,816	14
<b>Income tax expense (note 4(n))</b>	2,959,534	5	1,166,026	3
<b>Earnings before cumulative effect of changes in accounting principles and after income tax</b>	7,479,312	13	4,088,790	11
Cumulative effect of changes in accounting principles (note 3)	1,919	—	—	—
<b>Net income</b>	\$ 7,481,231	13	4,088,790	11
Income attributable to:				
Shareholders of parent company	\$ 5,741,765		3,279,162	
Minority shareholders	1,739,466		809,628	
	\$ 7,481,231		4,088,790	
	Income before income tax		Income before income tax	
<b>Basic earnings per share of common stock:</b>				
<b>Earnings before cumulative effect of changes in accounting principles and after income tax</b>	\$ 8.04		4.59	
<b>Cumulative effect of changes in accounting principles</b>	(0.01)		—	
<b>Net income</b>	\$ 8.03		4.59	
<b>Diluted earnings per share of common stock:</b>				
Earnings before cumulative effect of changes in accounting principles and after income tax	\$ 8.03		4.58	
<b>Cumulative effect of changes in accounting principles</b>	(0.01)		—	
<b>Net income</b>	\$ 8.02		4.58	

See accompanying notes to financial Statements  
Chairman :Shao Yu Wang

Manager :Wei-Hua Tu

Chief Accountant :John Chen



**TSRC CORPORATION**  
**Consolidated Statements of Changes in Stockholders' Equity**  
**For the years ended December 31, 2011 and 2010**  
**(expressed in thousands of New Taiwan dollars)**

Unit: NT\$1,000

	Retained earnings				Other equity adjustments				Minority interest	Total
	Common stock	Capital surplus	Legal reserve	Unappropriated earnings	Accumulated translation adjustments	Net loss not yet recognized as net pension cost	Unrealized gains (losses) on financial instruments	Reserve for asset revaluation increment		
<b>Balance as of January 1, 2010</b>	\$ 6,499,095	69,003	1,962,455	3,005,673	579,328	-	5,468	7,266	2,018,001	14,146,289
Consolidated net income for the period	-	-	-	3,279,162	-	-	-	-	809,628	4,088,790
Appropriations and distributions (note 1):										
Legal reserve	-	-	233,157	(233,157)	-	-	-	-	-	-
Cash dividends	-	-	-	(2,079,711)	-	-	-	-	-	(2,079,711)
Changes in unrealized gains on financial instruments	-	-	-	-	-	-	512	-	-	512
Changes in net loss not yet recognized as net pension cost	-	-	-	-	-	(48,156)	-	-	-	(48,156)
Changes in accumulated translation adjustments	-	-	-	-	(321,425)	-	-	-	(167,112)	(488,537)
Changes in minority interest	-	-	-	-	-	-	-	-	(451,271)	(451,271)
<b>Balance as of December 31, 2010</b>	6,499,095	69,003	2,195,612	3,971,967	257,903	(48,156)	5,980	7,266	2,209,246	15,167,916
Consolidated net income for the period	-	-	-	5,741,765	-	-	-	-	1,739,466	7,481,231
Appropriations and distributions (note 2):										
Legal reserve	-	-	327,917	(327,917)	-	-	-	-	-	-
Cash dividends	-	-	-	(2,274,683)	-	-	-	-	-	(2,274,683)
Stock dividends	649,909	-	-	(649,909)	-	-	-	-	-	-
Changes in unrealized gains on financial instruments	-	-	-	-	-	-	(5,980)	-	-	(5,980)
Changes in net loss not yet recognized as net pension cost	-	-	-	-	-	3,216	-	-	-	3,216
Changes in accumulated translation adjustments	-	-	-	-	744,462	-	-	-	239,803	984,265
Changes in minority interest	-	-	-	-	-	-	-	-	(663,031)	(663,031)
<b>Balance as of December 31, 2011</b>	<u>\$ 7,149,004</u>	<u>69,003</u>	<u>2,523,529</u>	<u>6,461,223</u>	<u>1,002,365</u>	<u>(44,940)</u>	<u>-</u>	<u>7,266</u>	<u>3,525,484</u>	<u>20,692,934</u>

Note 1: Directors' and supervisors' emoluments \$21,440 and employees' bonus \$42,881 has been deducted from statements of operations.

Note 2: Directors' and supervisors' emoluments \$30,150 and employees' bonus \$60,301 has been deducted from statements of operations.

See accompanying notes to financial Statements

Chairman :Shao Yu Wang

Manager :Wei-Hua Tu

Chief Accountant :John Chen

**TSRC Corporation**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2011 and 2010**  
**(expressed in thousands of New Taiwan dollars)**

Unit: NT\$1,000

	2010	2009
	<u>Amount</u>	<u>Amount</u>
<b>Cash flows from operating activities:</b>		
<b>Consolidated net income</b>	\$ 7,481,231	4,088,790
<b>Adjustments to reconcile consolidated net income to net cash provided by operating activities:</b>		
Depreciation (include those of rental assets and idle assets)	728,442	754,330
Amortization	93,814	18,762
Reversal of allowance for bad debt	(41,545)	(53,307)
Provision for (reversal of) losses on inventory valuation and obsolescence	115,173	(4,042)
Investment income, net, accounted for by the equity method	(26,276)	(50,964)
Cash dividends of long-term investments, accounted for by the equity method	24,766	31,049
Losses (gains) on disposal of property and equipment, net	9,044	(19,434)
Gains on disposal of intangible assets	—	(8,327)
Deferred income tax expense	729,431	180,520
Gains on disposal of investments	(7,962)	(36,997)
<b>Change in operating assets and liabilities:</b>		
<b>Changes in operating assets:</b>		
Financial assets at fair value through profit or loss — current	—	922
Notes receivable	(1,390,658)	(229,014)
Accounts receivable	(1,058,398)	(1,422,816)
Other financial assets — current	(186,729)	(28,045)
Inventories	(2,311,485)	(382,663)
Prepayments and other current assets	282,933	(324,991)
<b>Changes in operating liabilities:</b>		
Notes payable	249,601	44,405
Accounts payable	405,793	(35,306)
Accounts payable — related parties	(40,521)	236,352
Income tax payable	320,880	473,212
Accrued expenses and other current liabilities	303,573	271,866
Accrued pension liability	2,805	358
Other liabilities — others	(12,201)	(30,645)
<b>Net cash provided by operating activities</b>	<u>5,671,711</u>	<u>3,474,015</u>
<b>Cash flows from investing activities:</b>		
Increase in available-for-sale financial assets	(890,000)	(490,000)
Proceeds from sale of available-for-sale financial assets	973,761	1,876,522
Increase in long-term investments, accounted for by equity method	(407,407)	(327,600)
Refunds from capital reduction of investee, accounted for by equity method	—	44,476
Proceeds from disposal of financial assets carried at cost — noncurrent	144,000	—
Proceeds from liquidation of investment, accounted for by equity method	—	88,246
Acquisitions of property, plant and equipment	(1,168,724)	(332,832)
Proceeds from disposal of property, plant and equipment	15,169	51,558
Increase in intangible assets	(210,852)	(3,293)
Proceeds from sale of intangible assets	—	19,165
Increase in other financial assets — noncurrent	(22,917)	(52,913)
Increase in other assets	(49,531)	(18,130)
Cash payment for merger and accusation	(5,639,823)	—
<b>Net cash provided by (used in) investing activities</b>	<u>(7,256,324)</u>	<u>855,199</u>

**TSRC Corporation**  
**Consolidated Statements of Cash Flows (Continued)**  
**For the years ended December 31, 2011 and 2010**  
**(expressed in thousands of New Taiwan dollars)**

Unit: NTS1,000

	2011	2010
	<u>Amount</u>	<u>Amount</u>
<b>Cash flows from financing activities:</b>		
Increase in short-term borrowings	\$ 1,542,230	1,575,470
Increase in long-term borrowings	5,088,720	—
Repayment of long-term borrowings	(845,325)	(1,084,139)
Increase in returnable deposits	16,997	12,111
Payment of cash dividends	(2,937,098)	(2,528,746)
<b>Net cash provided by (used in) financing activities</b>	<u>2,865,524</u>	<u>(2,025,304)</u>
<b>Effect of exchange rate changes</b>	<u>77,257</u>	<u>(237,562)</u>
<b>Net increase in cash and cash equivalents</b>	<u>1,358,168</u>	<u>2,066,348</u>
<b>Acquired cash on merger and acquisition</b>	<u>601,342</u>	<u>—</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>4,096,374</u>	<u>2,030,026</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 6,055,884</u>	<u>4,096,374</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for: Interest paid	<u>\$ 138,475</u>	<u>154,904</u>
Income tax paid	<u>\$ 1,573,932</u>	<u>476,905</u>
<b>Supplemental disclosures of investing and financing activities with cash expenditure:</b>		
Purchase of property plant and equipment	<u>\$ 1,141,690</u>	<u>444,748</u>
Net changes in accounts payable	<u>\$ 27,034</u>	<u>(111,916)</u>
Cash payment	<u>\$ 1,168,724</u>	<u>332,832</u>
Distribution of cash dividends	<u>2,937,714</u>	<u>2,530,983</u>
Net changes in dividends payable	<u>(616)</u>	<u>(2,237)</u>
Cash payment	<u>\$ 2,937,098</u>	<u>2,528,746</u>
<b>Supplemental disclosures of investing and financing activities with no cash effect:</b>		
Receivable from liquidation of investment, accounted for by equity method	<u>\$ —</u>	<u>24,299</u>
Unrealized gain/losses on financial instruments	<u>\$ (5,980)</u>	<u>512</u>
Financial assets carried at cost-noncurrent from a liquidation of investment accounted for by equity method	<u>\$ —</u>	<u>274,174</u>
Property, plant and equipment transferred to rental assets	<u>\$ —</u>	<u>94,596</u>
Idles assets transferred to rental assets	<u>\$ —</u>	<u>73,248</u>
Leased asset and payable recognized simultaneously under a capital lease	<u>\$ —</u>	<u>14,401</u>
Reclassification of current portion of long-term debts	<u>\$ 1,067,183</u>	<u>875,151</u>
Property, plant and equipment transferred to software	<u>\$ 51,763</u>	<u>10,833</u>
Inventory transferred to property, plant and equipment	<u>\$ 26,065</u>	<u>—</u>
<b>Information of merger and acquisition transaction:</b>		
Cash	<u>\$ 601,342</u>	
Property, plant and equipment	<u>886,772</u>	
Intangible assets	<u>2,651,860</u>	
Inventories	<u>1,107,289</u>	
Accounts receivable, net	<u>749,350</u>	
Other assets	<u>11,573</u>	
Accounts payable and accrued expense	<u>(368,363)</u>	
Payment of cash on merger and acquisition transaction	<u>\$ 5,639,823</u>	

See accompanying notes to financial Statements

Chairman :Shao Yu Wang

Manager :Wei-Hua Tu

Chief Accountant :John Chen

**TSRC CORPORATION**  
**Notes to Consolidated Financial Statements**  
**December 31, 2011 and 2010**  
**(expressed in thousands of New Taiwan dollars, unless otherwise stated)**

**1. Organization and Business Scope**

TSRC Corporation (the original name was Taiwan Synthetic Rubber Corporation, TSRC) was incorporated in the Republic of China (ROC) on November 22, 1973, as a corporation limited by shares in accordance with the ROC Company Act. In May 1999, Taiwan Synthetic Rubber Corporation was renamed TSRC as approved by the stockholders' meeting. TSRC is engaged in (i) the manufacture, import and sale of various types of synthetic rubber; (ii) the import, export, and sale of related raw materials; (iii) the manufacture and sale of processed synthetic rubber products; and (iv) the manufacture and sale of excess steam and electricity produced by the steam and electrical equipment (no sales of electricity to the public); and (v) other than the scope of business permitted through registration, operation of business unless which business is prohibited or restricted by law is allowable.

As of December 31, 2011 and 2010, TSRC Corporation and its subsidiaries (hereinafter referred to as "TSRC group") had 1,366 and 1,296 employees, respectively.

**2. Summary of Significant Accounting Policies**

The consolidated financial statements of TSRC group are prepared in conformity with the ROC "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", and generally accepted accounting principles. The significant accounting policies and measurement basis adopted in preparing the consolidated financial statements were as follows:

**(a) Principles of Consolidation**

Subsidiaries in consolidated financial statements and changes in percentage of ownership are summarized as follows:

Name investor	Name of investee	Scope of business	Percentage of ownership		Description
			Dec. 31 2011	Dec. 31 2010	
TSRC	Trimurti Holding Corporation	Investment corporation	100.00%	100.00%	—
TSRC	Hardison International Corporation	Investment corporation	100.00%	100.00%	—
TSRC & Hardison International Corporation	Dymas Corporation	Investment corporation	100.00%	100.00%	TSRC directly owns 19.48% of the company's equity and indirectly owns 80.52% via Hardison International Corporation.
Trimurti Holding Corporation	Polybus Corporation Pte. Ltd.	International commerce and Investment	100.00%	100.00%	—
Trimurti Holding Corporation	TSRC (HONG KONG) Limited	Investment corporation	100.00%	100.00%	—
Trimurti Holding Corporation	TSRC (USA) Investment Corporation	Investment corporation	100.00%	—%	Founded on January 27, 2011
TSRC (HONG KONG) Limited	TSRC (Shanghai) Industries Ltd.	Production and sale of construction plastic materials, plastic compound metal and hot-foaming elastic construction materials	100.00%	100.00%	—
TSRC (HONG KONG) Limited	TSRC (Jinan) Industries Ltd.	Production and sale of construction plastic materials, plastic compound metal and hot-foaming elastic construction materials	100.00%	100.00%	—
TSRC (HONG KONG) Limited	TSRC (Lux) Corporation S. a. r. l.	International commerce and Investment	100.00%	—%	Founded on July 26, 2011
Polybus Corporation Pte Ltd.	Shen Hua Chemical Industrial Co., Ltd.	Production and sale of SBR synthetic rubber	65.44%	65.44%	—
Polybus Corporation Pte Ltd.	TSRC-UBE (Nantong) Chemical Industries Company Limited	Production and sale of synthetic rubber products	55.00%	55.00%	—
Polybus Corporation Pte Ltd.	TSRC (Nantong) Industries Ltd.	Production and sale of synthetic rubber products	100.00%	100.00%	—
TSRC (USA) Investment Corporation	Dexco Polymers LP.	Production and sale of synthetic rubber products	100.00% (Note 1)	—%	Dexco Polymers LP was consolidated on April 1, 2011
Hardison International Corporation	Triton International Holdings Corporation	Investment corporation	100.00%	100.00%	—

Name investor	Name of investee	Scope of business	Percentage of ownership		Description
			Dec. 31 2011	Dec. 31 2010	
Hardison International Corporation	TSRC Biotech Ltd.	Investment corporation	100.00%	100.00%	—
Triton International Holdings Corporation	Nantong Qix Storage Co., Ltd.	Storehouse for chemicals	50.00%	50.00%	—

Note 1: TSRC (USA) Investment Corporation is a limited partner of Dexco Polymers Operating Company LLC (Dexco LLC). TSRC (USA) not only directly acquires 99% of ownership of Dexco Polymers LP, but also indirectly acquires 1% of ownership of Dexco Polymers LP through Dexco LLC. Because Dexco LLC is a holding company and does not have real operation, the related information of Dexco LLC is not disclosed.

Note 2: All significant intercompany balances and transactions were eliminated on consolidation.

**(b) Use of estimates**

The preparation of the accompanying consolidated financial statements in conformity with the aforementioned guidelines, regulations and principles requires management to make reasonable assumptions and estimates of matters that are inherently uncertain. The actual results may differ from management's estimates.

**(c) Foreign currency transactions**

TSRC maintains its books in New Taiwan dollars, which is its reporting and functional currency. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars using the exchange rates on that date. The resulting unrealized exchange gains or losses from such translations are reflected in the accompanying statements of income. Non-monetary assets and liabilities denominated in foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are reported at the rate that was in effect when the fair values were determined. Subsequent adjustments to carrying values of such non-monetary assets and liabilities, including the effects of changes in exchange rates, are reported in profit or loss for the period, except that if movement in fair value of a non-monetary item is recognized directly in equity, any foreign exchange component of that adjustment is also recognized directly in equity.

In preparing the consolidated financial statements, the financial statements of foreign subsidiaries that are accounted for by the equity method and those of consolidated subsidiaries are translated into New Taiwan dollars at the exchange rates prevailing at the balance sheet dates, with the exception of stockholders' equity accounts, which are translated at historical exchange rates, and revenue, costs and expenses, which are translated at the average exchange rates during the reporting periods. The resulting translation differences are recorded as accumulated translation adjustments, a separate component of stockholders' equity.

**(d) Classification of assets and liabilities as current and noncurrent**

Current assets are unrestricted cash or cash equivalents and assets held for trading purpose which is to be converted into cash, sold, or consumed within one year after the date of the financial statements; all other assets are classified as noncurrent assets. Liabilities that are held primarily for the purpose of being traded or are expected to be settled within 12 months after the balance sheet date are classified as current-liabilities; all other liabilities are classified as noncurrent liabilities.

**(e) Asset impairment**

Assessment is made at each balance sheet date whether there is any indication that an asset ( individual asset or cash-generating unit) may have been impaired. If any such indication exists, the recoverable amount of the asset is estimated. Impairment loss is recognized for an asset whose carrying value is higher than the recoverable amount.

Impairment loss recognized in prior periods for assets other than goodwill is reversed if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The cash-generating unit to which goodwill is allocated is assessed for impairment on an annual basis and impairment loss thereon is recognized based on the excess of the carrying value over the recoverable amount.

**(f) Cash equivalents**

Cash equivalents consist of highly liquid short-term investments that are readily convertible to known amounts of cash and present insignificant risks from changes in interest rates. Cash equivalents generally represent commercial paper with maturities of three months or less at the date of acquisition.

**(g) Financial assets and liabilities**

1. Financial assets at fair value through profit or loss:

Financial instruments are intended mainly for purposes of selling or repurchasing in the short term. Except for the derivatives that TSRC group held for hedging purposes and are considered to be effective, all financial derivatives are classified into this account. At initial recognition, financial instruments are measured at fair value. Cost of transaction and issuance is recorded as current expense. Financial instruments are re-measured at fair value subsequently, with changes in fair value recognized in profit or loss. Trade-date accounting is adopted when purchasing or selling such financial instruments under transaction conventions.

2. Available-for-sale financial assets:

At initial recognition, financial instruments recognized as available-for-sale financial assets are measured at fair value plus acquisition cost. Subsequently, they are measured at fair value. Prior to the derecognition of such assets, the changes in fair value are reported as an adjustment item in stockholders' equity, except for impairment loss and translation profit or loss from monetary financial assets. When available-for-sale financial assets are derecognized, the cumulative gain or loss in equity is transferred to profit or loss.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized in earnings. The changes in fair value from subsequent re-measurement are reported as separate component of stockholders' equity. A subsequent reversal of allowance for impairment is allowed and recognized in profit or loss.

#### 3. Financial assets carried at cost:

When TSRC group does not have significant influence over the investee company and securities of the investee company whose fair value cannot be reliably measured, these financial instruments are stated at their original cost. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed until the assets are disposed.

#### 4. Notes receivables, accounts receivables and other receivables:

Notes receivables and accounts receivables are generated from sales of goods or provision of services directly to customers. Other receivables are generated from sales of goods and provision of services for non-operating purposes.

Financial assets are measured at amortized cost using the effective method. TSRC group considers evidence of impairment for financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

In assessing collective impairment, TSRC group uses historical trends of the profitability of default, timing of recoveries, and amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Loss are recognized in profit or loss and reflected in an allowance account against financial assets. Interest on the impaired asset continues to be recognized. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Before December 31, 2010, an allowance for doubtful receivables was provided based on the review of the collectability of receivables. TSRC group determined the amount of the allowance for the doubtful receivables by considering the account aging analysis and current trends in the credit quality of its customers. Effective January 1, 2010, the allowance for bad debts is recognized based on the result of impairment test of financial assets.

#### **(h) Inventories**

Inventories are measured at the lower of cost or net realizable value. Effective on January 1, 2011, the method of valuing inventories was changed from first-in first-out method to moving average method. The cost of inventories is based on the standard cost. Net realizable value is the estimated selling price in the ordinary course of business at the balance sheet date, less the estimated costs of completion and selling expenses at the end of the period. The difference between standard cost of inventory and actual cost of inventory is allocated proportionately to inventories and cost of sales. Fixed manufacturing overhead is allocated to inventories and cost of sales based on the higher of normal capacity or actual capacity of production. The amount of unallocated fixed manufacturing overhead resulting from lower capacity or idle plant is recognized in cost of sales during the years ended December 31.

#### **(i) Long-term investments accounted for by the equity method**

The investments in equity securities are accounted for by using the equity method when TSRC and its investees hold between 20% and 50% of voting rights of an investee, or hold less than 20% of voting rights but have a significant influence on the investee's financial and operating policy. Jointly controlled entities are those entities over whose activities TSRC group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

The excess of cost of investment over the fair value of identifiable net assets acquired is accounted for as goodwill, which is not amortized in accordance with the revised Statement of Financial Accounting Standards No. 5 "Long-term Investments under Equity Method".

When TSRC group subscribes for additional investee's shares at a percentage different from its ownership percentage, it causes a difference between the carrying amount of TSRC's investment in investee and its share of the investee's equity. Such difference is adjusted against capital surplus.

Under the equity method, gains or losses from inter-company transactions are deferred and then recognized when realized. Gains or losses resulting from inter-company transactions involving depreciable or amortizable assets are deferred and then recognized over the assets' estimated useful lives. Gains or losses resulting from other inter-company transactions are recognized when realized.

If investees accounted for by the equity method is dissolved through the approval of shareholders' meeting, investment loss thereon is recognized until the date of dissolution and the equity method of accounting is discontinued after the dissolution. If the investees are still under the process of liquidation, the recoverable amount of investment is estimated so any estimated loss on disposal is recognized immediately. However, the estimated gain from the disposal thereof is recognized only when the liquidation is complete.

When TSRC has control over the investee company, such investee company is included in consolidated financial statements at the end of the first quarter, half-year, third quarter and fiscal year, in accordance with the statement of Financial Accounting Standards No.7 "Consolidated Financial Statements".

#### **(j) Property, plant and equipment**

Property, plant and equipment are stated at cost plus revaluation increment. Interest on borrowings in connection with the acquisition of property and equipment or the construction of plant is capitalized as a component of the respective asset. Major addition, improvement, and replacement costs are capitalized. Maintenance and repair costs are recorded as current expense.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. When property, plant and equipment reach their useful lives but they are still being made available for use, depreciation is calculated continuously based on their residual value and estimated remaining useful lives.

Gains or losses on the disposal of property, plant and equipment are recorded as non-operating income or expense.



The estimated costs of dismantling and removing an item and restoring the site on which it is located are capitalized. Each part of an item of property, plant or equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The remaining useful life, depreciation method, and residual value are assessed at each fiscal year-end, and changes therein are accounted for as changes in accounting estimates.

The estimated useful lives of the respective assets are as follows:

- (i) Land improvements: 8 ~ 30 years
- (ii) Buildings: 3 ~ 60 years
- (iii) Machinery and equipment: 8 ~ 40 years
- (iv) Transportation equipment: 5 years
- (v) Furniture and fixtures: 3 ~ 8 years

Land and buildings for operating lease are recorded as other assets—rental assets and are valued at carrying value.

Idle assets are accounted for as other assets and evaluated for impairment in accordance with Statement of Financial Accounting Standards No. 35 “Impairment of Assets” .

**(k) Intangible assets**

Intangible assets of TSRC group are stated as the original costs. Industrial technologies are stated at amounts approved by the government.

	<u>Lives</u>
Software	3 years
Land use right	50 years
Industrial technologies	10 years
Know-how	20 years
Non-compete	3 years
Trademark and goodwill	indefinite

In accordance with ROC SFAS No. 25 “Business Combination” , goodwill arising from mergers and acquisition is not amortized but is tested for impairment annually.

**(l) Capital lease**

The leased property is measured at present value of all future rental payments (less the lessee's executory costs) plus the bargain purchase price or the lessee's guaranteed residual value or market value of the leased property at the inception date of the lease, whichever is lesser.

The lessee's periodic rental payment covers two parts: (i) the purchase price of the leased property and (ii) the interest expense due to long-term or installment financing. Therefore, the lessee recognizes both a lease liability and interest expense in each period. The interest expense is determined using the following rules:

a) If the value of the leased property is determined using the maximum borrowing rate for nonfinancial institutions (determined by the ROC Ministry of Finance) on the inception date of the lease, interest expense is calculated based on the beginning balance of the lease payable and the maximum borrowing rate.

b) If the value of the leased property is determined by its market price, interest expense is also calculated based on the beginning balance of the lease payable and the maximum borrowing rate. However a service charge is calculated based on the beginning balance of the lease payable and the difference between the leaser's interest rate implicit in the lease and the maximum borrowing rate.

If there is no guaranteed residual value at the end of the lease term, the lessee calculates the imputed interest expense based on the rental payments and the leased property's market value using the rules described under items (a) and (b) above.

The lessee's lease payable excludes interest expense and service charge from the periodic rental payment.

The lease liability is classified as either current or non-current liability, depending on the due date.

**(m) Financial liabilities**

Financial liabilities at fair value through profit or loss

Financial instruments are intended mainly for purposes of selling or repurchasing in the short term. Except for the derivatives that TSRC group held for hedging purposes and are considered to be effective, all financial derivatives are classified into this account. At initial recognition, financial instruments are measured at fair value. Cost of transaction and issuance is recorded as current expense. Subsequent to initial recognition, changes in the fair value of financial instruments are recognized in profit or loss.

**(n) Employee retirement benefits**

a) Defined benefit retirement plan:

TSRC has adopted a defined benefit retirement plan (the “Plan” ) for all salaried employees since 1980. The Plan provides for benefit payments using a formula based on an employee's length of service and average salary for six months before retirement. According to the Plan, employees qualified for retirement are entitled to receive their benefit payment in a lump sum. TSRC is funding the Plan monthly in accordance with the Labor Standards Law. The pension fund is deposited with Bank of Taiwan, the government-designated custodian of pension funds.

TSRC adopted Statement of Financial Accounting Standards No. 18, “Accounting for Pensions” . Under this standard, TSRC is required to perform an actuarial calculation on its pension obligation as of each fiscal year-end. Based on the actuarial calculation, TSRC recognizes a minimum pension liability and net periodic pension costs covering the service lives of participants. A deferred pension cost is recognized and classified under intangible assets when the amount of additional liability does not exceed the sum of unrecognized prior service cost and

unrecognized transitional net benefit obligation. An excess is charged to the net loss not yet recognized as net periodic pension cost account, and is classified as a reduction of equity. The unrecognized net transition obligation and unrecognized pension gain or loss are amortized on a straight-line basis.

For those employees who were covered by the Plan, pension contributions are made monthly to the Bureau of Labour Insurance at the rate of 6.87% and 7.07% of their monthly wages from January 1 to March 30, 2010, and April 2010 to February 2011, respectively. Subsequently, this contribution rate was adjusted to 8.93% from March 2011.

**b) Defined contribution retirement plan:**

Starting from July 1, 2005, the enforcement rules of the newly enacted Labour Pension Act (the "New Act") require the following categories of employees to adopt the New Act's defined contribution retirement plan:

- (i) Employees who were covered by the Plan and opted to be subject to the pension mechanism under the New Act; and
- (ii) Employees who commenced working after the enforcement date of the New Act.

In accordance with the New Act, TSRC shall contribute monthly no less than 6% of an employee's monthly salary or wages to the employee's individual pension fund account at Bureau of Labour Insurance. The actual contribution rate of TSRC is 6% of the employee's monthly wages. Such contributions are charged to current operations as pension cost on accrual basis.

Contribution rates for subsidiaries applying to defined contribution retirement plan are as follows:

	Contribution rates
Polybus Corporation Pte. Ltd.	14.5% of the employee's monthly wages
Subsidiaries in Mainland China	20% of the employee's monthly wages
TSRC (Lux.) Corporation S. a. r. l.	8% of the employee's monthly wages
Subsidiaries in USA	4% of the employee's monthly wages

Trimurti Holding Corporation, Senpol Corporation Ltd., TSRC SRD Ltd., TSRC AMD Ltd., TSRC ( HONG KONG ) Limited, Hardison International Corporation, Dymas Corporation, Triton International Holdings Corporation, and TSRC Biotech Ltd. are holding or investing companies located abroad. There's no employees in above companies. Therefore, there's no any pension related liabilities and expenses.

**c) Without pension plan:**

Trimurti Holding Corporation, TSRC (Hong Kong) Limited, Hardison International Corporation, Dymas Corporation, Triton International Holdings Corporation, and TSRC Biotech Ltd. are holding or investing companies located overseas with no employees. Therefore, they have no pension related liabilities and expenses.

**(o) Employees' bonus and directors' and supervisors' emoluments**

Employees' bonus and directors' and supervisors' emoluments are accounted for by Interpretation (96) 052 issued by the ARDF. TSRC group estimates the amount of employees' bonus and directors' and supervisors' emoluments as expenses according to this Interpretation and recognizes it when TSRC group's legal obligation and the amounts can be accrued reasonably. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss.

**(p) Revenue recognition**

(i) Sales and cost of sales are recognized when the significant risks and rewards of ownership of the products are transferred to the buyers. Also, a provision for estimated returns and discounts is recorded as sales are recognized. Expenses are recognized on an accrual basis.

(ii) Dividends income is recognized on the date of dividend distribution or on the date when the board of directors approved a resolution to distribute dividends.

**(q) Income tax**

Income taxes are accounted for under the asset and liability method. Deferred income taxes are determined based on differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, net operating loss carry forwards, and income tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly.

When a change in the tax laws is enacted, the deferred tax assets or liabilities ( including items that are directly debited or credited to stockholders' equity) are recalculated accordingly in the period of change. The effect of changes in the deferred tax assets or liabilities is reported as an adjustment to current income tax benefit or expense.

Classification of the deferred income tax assets or liabilities as current or non-current is based on the classification of the related asset or liability. If the deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the expected realization date of such deferred income tax asset or liability.

The flow-through method is adopted for income tax credits resulting from the purchase of equipment or technology, research and development expenditures, and human resource development expenditures.

Undistributed income, if any, is subject to an additional 10 percent retained earnings surtax. This surtax is charged to income tax expense in the following year when the stockholders approved a resolution not to distribute the earnings.

Dexco Polymers LP is a pass through entity under US tax perspective as its tax liability is passed through and paid by TSRC (USA) Investment Corporation. Aside from Dexco Polymer LP and TSRC (USA) Investment Corporation, all other subsidiaries are independent taxable entities whose taxable income and expenses cannot be offset against each other.



### (r) Earnings per share of common stock

Earnings per share are computed by dividing the amount of net income attributable to common stock outstanding for the period by the weighted-average number of common shares outstanding during the period.

Stock options issued by TSRC as employees' bonus but still not yet approved by stockholders are treated as potential common stock. When computing diluted EPS, potential common shares are included in the calculation if they are dilutive. Non-dilutive potential common shares are excluded from the calculation of diluted EPS.

The method of calculating the diluted EPS is consistent with that of the basic EPS but the diluted EPS includes the effects of all potentially dilutive common shares that were outstanding during the reporting period. When calculating diluted EPS, the net income attributable to common stockholders and the weighted-average number of shares outstanding are adjusted for the effects of all dilutive potentially dilutive common shares.

The weighted-average number of common shares outstanding is adjusted currently and retroactively for the increase in common shares outstanding from stock issuance through the capitalization of retained earnings, additional paid-in capital, or employees' bonus. For calculating the diluted EPS, the employees' bonus in stock is included in the calculation of the weighted-average number of shares at market price or net value on the balance sheet date.

### (s) Operating segment

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). The segment's operating results are reviewed regularly by the entity's chief operating decision maker to make decisions pertaining to the allocation of the resources to the segment and to assess its performance for which discrete financial information is available.

### 3. Reason for and Effect of Accounting Changes

(a) TSRC group adopted the third revisions of the ROC SFAS No. 34 "Accounting for Financial Instruments" effective on January 1, 2011 for the recognition, subsequent measurement and impairment of originated loans and receivables. The adoption of this amended accounting principle caused no significant impact on TSRC group's financial statements as of and for the year ended December 31, 2011.

(b) TSRC group changed their valuation method of valuing inventories from first-in first-out to moving average method commencing from January 1, 2011. For the year ended December 31, 2011, the effects of net income after tax and EPS were as follows:

	Net income	EPS
TSRC	(4,914)	(0.01)
TSRC (Nantong) Industries Co., Ltd.	2,555	—
TSRC-UBE (Nantong) Chemical Industrial Corporation Limited	2,090	—
Shen Hua Chemical Industrial Co., Ltd.	2,188	—
	<u>1,919</u>	<u>(0.01)</u>

(c) TSRC group adopted the ROC SFAS No. 41 "Disclosure of the Operating Segment" starting from January 1, 2011. According to this new accounting standard, an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effect of the business activities in which it engages and the economic environment in which it operates. Internal information that is provided to the operating decision maker is used as the basis for determining and disclosing the operating segment. This standard replaces the ROC SFAS No. 20 "Segment Reporting". The adoption of this new accounting standard was to disclose certain information and resulted in no impact on TSRC group's profit and loss for the year ended December 31, 2011.

### 4. Description of Significant Accounts

#### (a) Cash and cash equivalents

	Dec.31, 2011	Dec.31, 2010
Cash on hand	\$ 455	484
Checking and savings deposits	1,464,843	1,159,918
Time deposits	3,236,144	1,673,784
Commercial paper with repurchase agreements	1,354,442	1,262,188
	<u>\$ 6,055,884</u>	<u>4,096,374</u>

**(b) Financial assets****(i) Financial liabilities at fair value through income statement**

For the purpose of hedging foreign exchange risk, TSRC has signed the forward exchange agreements with several banks in 2010. Because the derivative instruments held in 2010 did not meet the conditions of hedging, it was treated as derivative instruments at fair value through income statement instead. The gains from transactions of derivative instruments was \$2,168 thousand in 2010, and it was classified under non-operating income—gains on valuation of financial asset, net. As of December 31, 2010, the above transactions have been settled. There was no such transaction in 2011.

**(ii) Available-for-sale financial assets—current:**

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Continental Holding Corporation <Note>	\$ -	81,779

Note: This investee restructured its organization in 2010. Under such restructuring, a new holding company, named “Continental Holding Corporation” (hereinafter called CHC), was founded and became a holding company of the original company, named “Continental Engineering Corporation”. On April 8, 2010, CHC went public as a listed company.

For the years ended December 31, 2011 and 2010, the sale of available-for-sale financial assets resulted in gains of \$7,962 and \$5,143 thousand respectively, which were accounted for as non-operating income and gains—gains on disposal of investments. For the year ended December 31, 2010, the changes in fair value of available-for-sale financial assets arising from subsequent re-measurement were negative net amount of \$5,980 thousand. There was no such transaction as of December 31, 2011.

**(iii) Financial assets carried at cost—noncurrent**

Investment in equity securities-common stock:

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Taiwan High Speed Rail Corp.	\$ 500,000	500,000
Wei Dah Investment Co., Ltd.	244,073	388,073
Evergreen Development Corp.	209,878	209,878
Thai Synthetic Rubbers Co., Ltd.	122,971	120,757
Hsin-Yung Enterprise Corp.	64,296	64,296
	<u>\$ 1,141,218</u>	<u>1,283,004</u>

These are investments in equity securities which are stated at their original cost as they do not have quoted market price in an active market and whose fair value cannot be reliably measured.

The Board of Wei Dah Investment Co., Ltd has resolved a capital reduction in 2011, and TSRC received a cash of \$144,000 thousand.

For the years ended December 31, 2011 and 2010, TSRC group received cash dividends of \$100,574 thousand and \$71,567 thousand, respectively, accounted for as non-operating income and gains—dividend income.

**(c) Notes and Accounts receivable**

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Notes receivable	\$ 2,493,559	1,102,901
Accounts receivable	5,937,541	4,125,538
	8,431,100	5,228,439
Less: allowance for doubtful accounts	529	42,074
	<u>\$ 8,430,571</u>	<u>5,186,365</u>

**(d) Inventories**

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Finished goods	\$ 4,231,692	1,627,605
Work in process	389,937	346,330
Raw materials	2,281,521	1,525,516
Supplies and parts	73,328	91,488
Merchandise inventories	63,728	3,009
	<u>\$ 7,040,206</u>	<u>3,593,948</u>

(i) For the years ended December 31, 2011 and 2010, the changes in allowance for inventory valuation loss and obsolescence were as follows:

	2011	2010
Balance as of January 1	\$ 160,413	169,658
Provisions provided (reversed) during the period	115,173	(4,042)
Adjustment of exchange rate	11,284	(5,203)
Balance as of December 31	<u>\$ 286,870</u>	<u>160,413</u>

(ii) For the years ended December 31, 2011 and 2010, the inventory-related gains and loss, recorded in cost of sales, were as follows:

	2011	2010
Loss on inventory devaluation (gains on reversal of inventory devaluation)	\$ 115,173	(4,042)
Loss on inventory obsolescence	-	330
Revenue from sales of scraps	(158,914)	(76,812)
	<u>\$ (43,741)</u>	<u>(80,524)</u>

A rapid fluctuation of material price is common due to the dynamic changes of economic environment. In addition, moving average method is mostly adopted not only in rubber industry but also in its upstream and downstream industries. In order to enhance the comparability of financial information and reasonableness of inventory cost in rubber industry, TSRC group changes its method of inventory valuation from first-in first-out to moving average method commencing from January 1, 2011.

#### (e) Long-term investments accounted for by the equity method

Investee	Dec.31, 2011			Dec.31, 2010		
	Holding Percentage	Balance	Investment Income	Holding Percentage	Balance	Investment Income
Asia Pacific Energy Development Co., Ltd.	37.78%	\$ 309,746	38,837	37.78%	273,835	49,705
TSRC-Lanxess (Nantong) Chemical Industrial Co., Ltd	50.00%	381,238	(5,098)	50.00%	200,810	(11,266)
Indian Synthetic Rubber Limited	30.00%	314,484	(7,436)	30.00%	97,425	(331)
Shin Dah Development Corporation Limited	-	-	-	-	-	12,856
		<u>\$ 1,005,468</u>	<u>26,276</u>		<u>572,070</u>	<u>50,964</u>

Asia Pacific Energy Development Co., Ltd., in which TSRC group's equity investment is accounted for by equity method, decreased its issued shares and returned them in cash. TSRC group received cash based on percentage of capital reduction proportionally and accordingly decreased its long-term investment to \$44,476 thousand.

The effective liquidation date of Shin Dah Development Corporation Limited was on December 23, 2010. Because of this liquidation, TSRC group received \$112,545 thousand in cash and \$274,174 thousand worth of shares of Evergreen Development Corp. and Hsin-Yung Enterprise Corp. The carrying value of such investment was \$362,591 thousand and the gain realized from the disposal thereof amounted to \$24,128 thousand. In 2005, TSRC group sold its long-term equity investment in Hsin-Yung Enterprise Corp. to Shin Dah Development Corporation Limited. This resulted in unrealized gain of \$7,726 thousand, which was recorded as gain on disposal of long-term investment. Gain from the disposal totaling \$31,854 thousand was recorded under operating income and gains – gain on disposal of long-term investment.

In 2010, TSRC group and Lanxess Hong Kong Limited jointly invested \$224,763 thousand in exchange for 50% equity ownership of Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd. In the first half of 2011, TSRC group made an additional equity investment of \$157,080 thousand in Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd. In addition, in 2010, TSRC group acquired 30% shareholding of Indian Synthetic Rubber Limited for \$102,837 thousand. In 2011, TSRC group made an additional equity investment of \$250,327 thousand in Indian Synthetic Rubber Limited. As the TSRC group has a significant influence on these investee companies, its equity investments thereof were accounted for by using the equity method.

#### (f) Property, plant and equipment

(i) In 2008, TSRC (Jinan) Industries Ltd. estimated the future cash flows on assets with impairment indicator. Impairment loss is recognized thereon as the estimated amount of future cash flows is lesser than carrying value.

(ii) Certain parcel of land of TSRC group was revalued using government-prescribed values in 1979 and 1981. Also, depreciable assets acquired before June 30, 1980, were revalued on January 1, 1981, which was approved by the Taipei National Tax Administration, based on the ROC "Statute for Encouragement of Investment" and other laws and regulations.

The details of the revaluation increments of December 31, 2011 and 2010 were as follows:

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Land	\$ 126,174	126,174
Land improvements	3,565	3,565
Buildings	37,018	37,018
Machinery and equipment	267,948	267,948
Furniture and fixtures	208	208
	<u>\$ 434,913</u>	<u>434,913</u>

(iii)TSRC has entered into a lease contract for leasing a parcel of land from the Industrial Development Bureau of the Ministry of Economic Affairs for the period from June 29, 2004, to June 28, 2024. During the term of the lease, TSRC has an option to purchase the rented land from the Industrial Development Bureau of the Ministry of Economic Affairs through a formal application. Once the application is approved, the rental and deposit paid during the lease period can be offset against the purchase price. The relevant leased asset and lease payable were as follows:

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Leased assets-land	\$ 94,596	94,596
Lease payable:		
Lesser	Lease period	Bargain purchase option
Industrial Development Bureau of the Ministry of Economic Affairs	6.29.2004~6.28.2024	Formally apply to Industrial Development Bureau of the Ministry of Economic Affairs for purchasing leased land
		Less : current portion
	<u>6,912</u>	<u>6,987</u>
	<u>\$ 73,111</u>	<u>79,459</u>

The above lease payable—current and noncurrent were classified under accrued expenses and other liabilities, and other liabilities—other, respectively.

The details of lease payable (excluding VAT) due in future years for the above capital lease were as follows:

Period	Amount
2012	\$ 7,064
2013	7,064
2014	7,064
2015	7,064
After 2016	60,043
	<u>88,299</u>
Less : unrealized interest expense	8,276
Present value	<u>\$ 80,023</u>

### (g)Intangible assets

For the years ended December 31, 2011 and 2010, the movements in intangible assets in TSRC group were as follows:

	January 1, 2011	Additions	Reclassification	Disposal	Effect of exchange rate changes	December 31, 2011
Original cost:						
Land use right	\$ 382,822	189,948	—	—	30,649	603,419
Industrial technology	97,520	—	—	—	21,033	118,553
Computer software	2,833	20,904	51,763	(2,059)	1,113	74,554
Goodwill	—	1,252,276	—	—	43,192	1,295,468
Trademark	—	122,976	—	—	4,242	127,218
Patent	—	459,696	—	—	15,857	475,553
Know-how	—	808,128	—	—	27,876	836,004
Non compete	—	8,784	—	—	303	9,087
	<u>\$ 483,175</u>	<u>2,862,712</u>	<u>51,763</u>	<u>(2,059)</u>	<u>144,265</u>	<u>3,539,856</u>

	January 1, 2010	Additions	Reclassification	Disposal	Effect of exchange rate changes	December 31, 2010
Land use right	\$ 421,183	3,293	—	(19,169)	(22,485)	382,822
Industrial technology	112,338	—	—	—	(14,818)	97,520
Computer software	—	—	2,833	—	—	2,833
	<u>\$ 533,521</u>	<u>3,293</u>	<u>2,833</u>	<u>(19,169)</u>	<u>(37,303)</u>	<u>483,175</u>
Accumulated amortization:	January 1, 2011	Amortization	Reclassification	Disposal	Effect of exchange rate changes	December 31, 2011
Land use right	\$ 61,687	10,506	—	—	5,468	77,661
Industrial technology	39,715	10,472	—	—	9,517	59,704
Computer software	—	22,802	—	(2,059)	265	21,008
Patent	—	17,349	—	—	484	17,833
Know-how	—	30,499	—	—	851	31,350
Non compete	—	2,210	—	—	62	2,272
	<u>\$ 101,402</u>	<u>93,838</u>	<u>51,763</u>	<u>(2,059)</u>	<u>16,647</u>	<u>209,828</u>
	January 1, 2010	Amortization	Reclassification	Disposal	Effect of exchange rate changes	December 31, 2010
Land use right	\$ 65,870	7,628	—	(7,909)	(3,902)	61,687
Industrial technology	34,249	11,134	—	—	(5,668)	39,715
	<u>\$ 100,119</u>	<u>18,762</u>	<u>—</u>	<u>(7,909)</u>	<u>(9,570)</u>	<u>101,402</u>
Beginning balance on Jan. 1, 2011						<u>\$ 381,773</u>
Ending balance on Dec. 31, 2011						<u>\$ 3,330,028</u>
Beginning balance on Jan. 1, 2010						<u>\$ 433,402</u>
Ending balance on Dec. 31, 2010						<u>\$ 381,773</u>

For the years ended December 31, 2011 and 2010, TSRC group recognized amortization expense of \$93,838 thousand and \$18,762 thousand, respectively, which were accounted for as operation cost and expenses.

**(h) Other assets – rental and idle assets**

	Dec.31, 2011	Dec.31, 2010
Rental assets:		
Buildings	\$ 741,889	741,889
Less: accumulated depreciation	<u>116,068</u>	<u>101,343</u>
	625,821	640,546
Land	<u>1,155,023</u>	<u>1,155,023</u>
	<u>\$ 1,780,844</u>	<u>1,795,569</u>
	Dec.31, 2011	Dec.31, 2010
Idle assets:		
Machinery and equipment	\$ 207,002	207,002
Less: accumulated depreciation	<u>189,585</u>	<u>169,149</u>
Accumulated depreciation	<u>17,417</u>	<u>37,853</u>
	—	—
Land	<u>120,221</u>	<u>120,221</u>
	<u>\$ 120,221</u>	<u>120,221</u>

In 1988, TSRC group purchased certain parcels of land near its Kaohsiung plant. This land has not yet been actively developed, and part of the land is leased to a non-related party. The cost of the related assets is included in rental assets and idle assets.

**(i) Short-term borrowings**

	Dec.31, 2011	Dec.31, 2010
Mortgage loans	\$ 9,592	31,084
Secured loans	757,250	—
Credit loans	4,334,522	3,528,050
	<u>\$ 5,101,364</u>	<u>3,559,134</u>

Short-term borrowings consisted of bank credit loans. As of December 31, 2011 and 2010, the related interest rates were as follows:

	Dec.31, 2011	Dec.31, 2010
JPY borrowings	0.74%~2.698%	0.774%~0.900%
USD borrowings	1.18%~3.0713%	0.690%~3.003%
EUR borrowings	2.13%~2.31%	1.220%~1.510%
RMB borrowings	2.15%~7.872%	5.100%~6.116%

As of December 31, 2011 and 2010, TSRC group had unused short-term credit lines of \$10,217,403 thousand and \$13,214,215 thousand, respectively.

**(j) Short-term commercial papers payable**

	Dec.31, 2011	Dec.31, 2010
Short-term commercial papers payable	\$ 250,000	—
Less: discount on short-term commercial papers payable	399	—
	<u>\$ 249,601</u>	<u>—</u>
Rate	1.2%	—

**(k) Long-term debts**

Bank	Nature and duration	Dec.31, 2011		Dec.31, 2010	
		Amount	Interest rate	Amount	Interest rate
Bank of China	Credit loans, 2008.10.16~2012.10.14, which are payable on maturity date	\$ 200,048	1.584% ~6.762%	187,650	1.567% ~5.645%
Agriculture Bank of China	Credit loans, 2007.3.2~2012.2.28, of which 19.51% is payable in Dec, 2009, 35.78% in Feb, 2010, 12.19% in Dec., 2011, and 32.52% in Feb., 2012	383,680	5.805%	488,453	5.184%
Chinatrust Bank	Secured loans, 2007.5.21~2012.5.20, which are payable on maturity date	67,992	1.35%	66,168	0.902%
Mizuho Corporate Bank	Secured loans, 2007.5.27~2012.5.27, of which 12.5% is payable in the 30 <sup>th</sup> and 36 <sup>th</sup> month, 18.75% in the 42 <sup>nd</sup> , 48 <sup>th</sup> , 54 <sup>th</sup> and 60 <sup>th</sup> month, commencing from 2007.5.27.	173,698	1.219% ~5.985%	490,909	1.196% ~5.184%
Bank of America Shanghai Branch	Secured loans, 2007.6.21~2012.8.15, payable in 6 half-yearly installments commencing from 2010.2.15.	141,765	2.544% ~6.210%	329,328	2.232% ~5.364%
Taiwan Cooperative Bank	Mortgaged loans, 2007.08.14~2012.08.14, interest is payable monthly and principal is payable in 6 half-yearly installments after 25 months commencing from the date of initial utilization of debt.	100,000	1.370%	200,000	1.260%
Mega International Commercial Bank	Mortgaged loans, 2008.06.20~2011.06.20, interest is payable monthly. Half of principal is payable in 30 months after the date of initial utilization of debt, and the remaining amount is payable on maturity date.	—	—	150,000	1.240%
Taipei Fubon Bank	Credit loans, 2011.03.31~2016.03.31 principal is payable every 6 months after 18 months from the date of initial utilization of debt.	2,655,520	1.3293%	—	—
	Mortgaged loans, 2011.03.31~2016.03.31 principal is payable every 6 months after 24 months commencing from the date of initial utilization of debt.	2,423,200	1.3293%	—	—
	Total	<u>6,155,903</u>		<u>1,912,508</u>	
	Less: current portion	<u>(1,067,183)</u>		<u>(875,151)</u>	
		<u>\$ 5,088,720</u>		<u>1,037,357</u>	

TSRC group entered into syndicated loan contract with Taipei Fubon bank and other eight banks:

(i) Borrower: Trimurti Holding Corporation and TSRC (USA) Investment Corporation.

(ii) Amount: US dollars \$80,000,000 and \$88,000,000, totalling US dollars \$168,000,000.

(iii) Duration: 5 years, TSRC (USA) Investment Corporation could extend to another two years.

(iv) Rate: 3 months or 6 months LIBOR plus 0.75% and 3 months or 6 months LIBOR plus 1.30%.

(v) Repayment term: Principal that Trimurti Holding Corporation borrowed is payable every 6 months after 18 months from the date of initial utilization of debt. Principal amount of loan that TSRC (USA) Investment Corporation borrowed is payable in 7 installments every 6 months after 24 months from the date of initial utilization of debt. Each of the first 6 installments is payable at the rate of 10% of principal and the last installment is payable at 40% of principal.

(vi) Guarantee: Parent company's letter of guarantee.

(vii) Others:

a. Equity to debt ratio should not be higher than 150%.

b. Total tangible net assets at the end of reporting period should not be less than \$10 billion.

c. Current ratio should not be less than 100%.

d. The interest coverage ratio for the reporting period should not be less than 4 times.

As of December 31, 2011, TSRC group was in compliance with the covenants described above.

### (I) Retirement benefits

1. As of December 31, 2011 and 2010, the funded status of the plan and the provision for retirement benefits were as follows:

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Vested benefit	\$ 451,280	436,650
Benefit obligation:		
Vested benefit obligation	\$ 344,137	334,705
Accumulated benefit obligation	\$ 554,119	563,316
Projected benefit obligation	\$ 654,184	672,071
Fair value of plan assets	410,471	413,972
Funded status	243,713	258,099
Unrecognized net loss	(145,005)	(156,911)
Unrecognized transition obligation	(26,418)	(31,703)
Adjustment required to recognize minimum liability (note)	71,358	79,859
Accrued pension liability	\$ 143,648	149,344

Note: As of December 31, 2011 and 2010, additional accrued pension liabilities incurred from unrecognized transitional net benefit obligation of \$26,418 thousand and \$31,703 thousand, respectively, were recorded as deferred pension cost, and the excess amount of \$44,940 thousand and \$48,156 thousand in 2011 was recorded as net loss not yet recognized as net pension cost.

The components of net periodic pension cost for the years ended December 31, 2011 and 2010, were as follows:

	<u>2011</u>	<u>2010</u>
Service cost	\$ 9,498	11,446
Interest cost	11,730	13,407
Actual return on plan assets	(4,911)	(6,898)
Net amortization	8,785	2,863
Net pension cost	\$ 25,102	20,818

Actuarial assumptions used for the retirement plan as of December 31, 2011 and 2010, were as follows:

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Discount rate	2.00%	1.75%
Future salary increase rate	1.50%	1.50%
Expected long-term rate of return on plan assets	2.00%	1.75%

2. TSRC group is subject to the Labor Pension Act, which became effective July 1, 2005. In 2011 and 2010, TSRC group contributed \$ 15,094 thousand and \$12,888 thousand, respectively, to the employees' individual pension accounts at the Bureau of Labor Insurance, recognized as pension expenses.

3. For the years ended December 31, 2011 and 2010, pension cost under defined contribution retirement plan for subsidiaries were \$ 30,134 thousand and \$29,718 thousand, respectively.

### **(m) Stockholders' equity**

#### **1. Common stock**

As of December 31, 2011 and 2010, the authorized capital amounted to \$9,000,000 thousand and \$7,500,000 thousand, respectively, with par value of \$10 per share, of which \$1,000,000 thousand was retained for conversion of convertible bonds, and the issued capital amounted to \$7,149,004 thousand and \$6,499,095 thousand, respectively.

#### **2. Capital surplus**

The ROC Company Act stipulates that realized capital surplus cannot be used to increase capital or distribute dividends except for making up deficits of TSRC. The realized capital surplus includes the premium from issuance of shares in excess of par value and donations received.

As of December 31, 2011 and 2010, the components were as follows:

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Share premium	\$ 849	849
Capital surplus resulting from long-term investment, accounted for by equity method	68,109	68,109
Others	45	45
	<u>\$ 69,003</u>	<u>69,003</u>

#### **3. Legal reserve**

The ROC Corporation Act stipulates that companies must retain 10% of their annual net earnings, as defined in the Act, until such retention equals the amount of issued share capital. When a company incurs no loss, it may, in pursuant to a resolution to be adopted by the shareholders' meeting as required, distribute its legal reserve by issuing new shares or cash. Only the portion of legal reserve which exceeds 25% of the paid-in capital may be distributed.

#### **4. Special reserve, dividends and bonuses**

In accordance with SFB Ruling Tai-Tsai-Cheng No. 100116, effective in 1999, in addition to appropriating a legal reserve, TSRC should appropriate a special reserve for other equity adjustment items with debit balance from current year's earnings after tax or prior year's unappropriated earnings. However, this special reserve cannot be distributed as dividend. When events resulting in other equity adjustment items with debit balances terminate, the related special reserve is reinstated into retained earnings, so that it can be made available for distribution as dividends.

Before the revision of TSRC article of incorporation, TSRC must retain 10% of its after-tax earnings as legal reserve (less deficits of prior years, if any), and then provide a special reserve. The remaining earnings should be distributed as follows:

- 1.97% of annual earnings is distributed as stockholders' dividends and bonus.
- 2.1% of annual earnings is distributed as directors' and supervisors' emoluments.
- 3.2% of annual earnings is distributed as employees' bonus.

If dividends and bonuses mentioned above are to be distributed, distribution for cash dividends should not be less than 20% of total dividends. The proportion of cash dividends is reduced or stock dividends are distributed if capital expenditures are anticipated in the future. Under any of the following circumstances, part or all of remaining earnings can be retained:

- a) If stock dividend per share is less than \$0.5.
- b) If necessary, not over 50% of remaining earnings can be retained.



The amounts of individual directors' and supervisors' emoluments and employees' bonus are based upon the board of directors' resolution. Based on a resolution approved by the shareholders during their meetings in 2011, the earnings distribution policies were modified as follows:

TSRC must retain 10% of its after-tax earnings as legal reserve (less deficits of prior years, if any), and then provide the special reserve. No less than 50% of distributable earnings shall be appropriated in the following order:

- 1.97% as stockholders' dividends and bonus.
- 2.1% as directors' and supervisors' emoluments.
- 3.2% as employees' bonus.

If the dividends and bonuses mentioned above are to be distributed, distribution of cash dividends should not be less than 20% of total dividends and stock dividends should not be more than 80% of total dividends. Distributable earnings would be retained if dividends mentioned above are less than \$0.5 New Taiwan Dollars per share.

The amounts of individual directors' and supervisors' emoluments and employees' bonus are based upon the board of directors' resolution.

The appropriations of 2010 and 2009 earnings that were approved by the TSRC's shareholders during their meetings on June 10, 2011, and June 15, 2010, respectively, were as follows:

	2010	2009
Cash dividends per share	\$ 3.50	3.20
Stock dividends per share	1.00	—
Employees' bonus—cash	60,301	42,881
Directors' and supervisors' emoluments	30,150	21,440

The amounts of the above appropriations of earnings were consistent with the resolutions approved by the board of directors during their meetings, and related information can be accessed through the Market Observation Post System.

The amounts of the above appropriations of earnings were consistent with the resolutions of the meetings of the board of directors, and related information can be queried on the Market Observation Post System.

For the years ended December 31, 2011 and 2010, TSRC recognized employees' bonus and directors' and supervisors' emoluments amounting to \$73,406 thousand (net of tax) and \$50,050 thousand (net of tax), respectively. Such amounts were estimated as percentages of the net income for the years ended December 31, 2011 and 2010, which are consistent with the articles of incorporation approved by TSRC's shareholders' meetings. The difference between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, shall be accounted for as a change in accounting estimates and recognized in profit or loss.

For the years ended December 31, 2011 and 2010, subsidiaries included in consolidated financial statements recognized employees' welfare amounting to \$331 thousand (net of tax) and \$2,434 thousand (net of tax), respectively. Such amounts were estimated based on earnings after tax and as percentages required by their articles of incorporation.

#### (n)Income tax

TSRC is subject to the ROC income tax at a maximum rate of 17% both for the years ended December 31, 2011 and 2010, and it applies to the "Income Basic Tax Act".

According to Tax Act of PRC, foreign invested enterprise is allowed income tax exemption for the first two years of profitability and 50% income tax exemption for the subsequent three years. In addition, based on the new Tax Act effective January 1, 2008, in PRC, an enterprise founded before the adoption of the new Tax Act is required to gradually adjust its tax rate back to 25% within five years commencing from the Act's effective date.

The actual individual tax rates of the subsidiaries located in PRC as of December 31, 2011 and 2010 were as follows:

	2011	2010
Shen Hua Chemical Industrial Co., Ltd.	24%	22%
Nantong Qix Storage Co., Ltd.	24%	22%
TSRC (Shanghai) Industries Ltd. <note>	25%	15%
TSRC (Jinan) Industries Ltd.	12%	11%
TSRC (Nantong) Industries Co., Ltd.	12%	11%
TSRC-UBE (Nantong) Chemical Industrial Corporation Limited.	12%	11%

Note: TSRC (Shanghai) Industries Ltd. 's tax rate of 15% from 2008 to 2011 was approved by "High Technology Enterprise Ruling".

Dexco Polymers LP is a Pass Through entity. Therefore, TSRC (USA) Investment Corporation pays income tax of Dexco Polymers LP. For the year ended December 31, 2011, the expected income tax rate of Dexco Polymers LP was 35%.

**1. For the years ended December 31, 2011 and 2010, the components of income tax expense were as follows:**

	<u>2011</u>	<u>2010</u>
Current income tax expense	\$ 2,227,438	983,635
Deferred income tax expense	729,431	180,520
10% surtax on undistributed earnings	<u>2,665</u>	<u>1,871</u>
Income tax expense	<u>\$ 2,959,534</u>	<u>1,166,026</u>

The components of deferred income tax expense for the years ended December 31, 2011 and 2010, were as follows:

	<u>2011</u>	<u>2010</u>
Reversal of allowance for impairment loss	\$ 3,474	10,854
Reversal of (allowance for) inventory valuation loss and obsolescence	(697)	483
Unrealized exchange gain (losses)	(3,167)	2,200
Reversal of bad debt	(127)	4,209
Reversal of (provision for) retirement benefits	4,021	10,452
Deferred charges and supplies transferred to expense	679	2,856
Amortization of capitalized interest expense	(1,319)	(14,498)
Depreciation difference between financial and tax reporting	(2,238)	7,667
Foreign investment income accounted for by the equity method	689,850	163,677
Technology as capital contribution difference between financial and tax reporting	2,812	6,399
Effect of change in income tax rate on deferred tax assets and liabilities	-	(24,766)
Loss carryforwards	-	8,236
Others	<u>36,143</u>	<u>2,751</u>
	<u>\$ 729,431</u>	<u>180,520</u>

**2. For the years ended December 31, 2011 and 2010, the income tax calculated on pretax accounting income calculated at statutory income tax rate was reconciled with income tax expense as follows:**

	<u>2011</u>	<u>2010</u>
Income tax calculated on pretax accounting income at statutory rate	\$ 2,684,587	1,233,127
Investment and R&D tax credits utilized	(11,063)	(8,258)
Previously overestimated income tax	(4,744)	-
Investment income accounted for by the equity method	-	(2,185)
Dividend income	(17,098)	(517)
Gain on disposal of investments, net	-	(5,415)
Effect of change in statutory income tax rate	-	(58,167)
Withholding tax on dividend	179,626	64,924
10% surtax on undistributed earnings	2,665	1,871
Others	<u>125,561</u>	<u>(59,354)</u>
Income tax expense	<u>\$ 2,959,534</u>	<u>1,166,026</u>

**3.As of December 31, 2011 and 2010, temporary differences and the individual items of income tax effects which resulted in deferred income tax assets (liabilities) were as follows:**

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Current deferred income tax assets:		
Allowance for inventory valuation loss and obsolescence	31,771	33,716
Allowance for bad debt	-	3,183
Expenses and repair materials costs which shall be deferred for tax reporting but charged to expense for financial reporting	249	455
Unrealized foreign exchange gains	916	(2,251)
Others	<u>1,587</u>	<u>7,099</u>
Current deferred income tax assets (included in prepayments and other current assets)	<u>\$ 34,523</u>	<u>42,202</u>
Noncurrent deferred income tax assets:		
Allowance for impairment loss	2,961	6,435
Provision for retirement benefits	13,852	11,812
Expenses and repair materials costs which shall be deferred for tax reporting but charged to expense for financial reporting	5,494	5,735
Differences between financial and tax on expense of organization costs	-	4,286
Difference between technology contributed as the capital of investee	14,707	17,519
Others	<u>15,310</u>	<u>15,875</u>
	52,324	61,662
Less: Allowance-deferred income tax asset	<u>2,748</u>	163
Non-current deferred income tax assets, net	<u>49,576</u>	<u>61,499</u>
Noncurrent deferred income tax liabilities:		
Capitalized interest expenses	(36,357)	(32,812)
Depreciation differences between financial and tax reporting	(3,854)	(10,956)
Accumulated translation adjustments	-	(124,662)
Foreign investment income accounted for by the equity method	(1,118,388)	(428,538)
Others	<u>(2,159)</u>	<u>(1,085)</u>
Noncurrent deferred income tax liabilities	<u>(1,160,758)</u>	<u>(598,053)</u>
Noncurrent deferred income tax liabilities, net	<u>\$ (1,111,182)</u>	<u>(536,554)</u>

On December 31, 2011 and 2010, the above noncurrent deferred income tax liabilities, net, are \$1,111,182 thousand and \$536,554 thousand, recorded \$13,649 thousand and \$18,913 thousand as other assets-others, and \$1,124,831 thousand and \$555,467 thousand as deferred income tax liabilities—noncurrent.

4.TSRC's income tax returns have been examined and accessed by the tax authorities through 2007.

5.As of December 31, 2011 and 2010, the balances of the Imputation Credit Account were as follows:

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Balances of imputation credit account	<u>\$ 369,144</u>	<u>185,736</u>

	<u>2010</u>	<u>2009</u>
Imputation tax credit ratio	<u>8.89%</u>	<u>16.30%</u>

As of December 31, 2011 and 2010, the components of unappropriated earnings subject to imputation income tax were as follows:

	<u>Dec.31, 2011</u>	<u>Dec.31, 2010</u>
Derived from year 1997 and before	\$ 1,637	1,637
Derived from year 1998 and after	<u>6,459,586</u>	<u>3,970,330</u>
	<u>\$ 6,461,223</u>	<u>3,971,967</u>

**(o) Earnings per share**

For the years ended December 31, 2011 and 2010, TSRC group's earnings per share were calculated as follows:

	2011	2010
	Net income	Net income
<b>Basic EPS:</b>		
Earnings before cumulative effect of changes in accounting principles before income tax	\$ 5,746,679	3,279,162
Cumulative effect of changes in accounting principles	(4,914)	-
Net income	<u>\$ 5,741,765</u>	<u>3,279,162</u>
Weighted-average number of shares	<u>714,900</u>	<u>714,900</u>
Basic EPS		
Earnings before cumulative effect of changes in accounting principles before income tax	\$ 8.04	4.59
Cumulative effect of changes in accounting principles	(0.01)	-
Net income	<u>\$ 8.03</u>	<u>4.59</u>
Earnings before cumulative effect of changes in accounting principles before income tax	\$ 5,746,679	3,279,162
Cumulative effect of changes in accounting principles	(4,914)	-
Net income	<u>\$ 5,741,765</u>	<u>3,279,162</u>
Weighted-average number of shares	714,900	714,900
Employees' bonuses	988	1,810
Weighted-average number of shares outstanding for calculating diluted EPS	<u>715,888</u>	<u>716,710</u>
Diluted EPS		
Earnings before cumulative effect of changes in accounting principles before income tax	\$ 8.03	4.58
Cumulative effect of changes in accounting principles	(0.01)	-
Net income	<u>\$ 8.02</u>	<u>4.58</u>

**(p) Financial instruments**

1. As of December 31, 2011 and 2010, the details of financial instruments were as follows:

	Dec.31, 2011			Dec.31, 2010		
	Book value	Fair value		Book value	Fair value	
		Public quote value	Assessment value		Public quote value	Assessment value
Financial assets:						
Fair value equal to book value of assets	\$ 14,791,112	1,465,298	13,325,814	9,400,667	1,160,402	8,240,265
Available-for-sale financial assets	-	-	-	81,779	81,779	-
Financial assets carried at cost	1,141,218	-	-	1,283,004	-	-
Other financial assets – noncurrent	78,279	-	78,279	55,362	-	55,362
Financial liabilities:						
Fair value equal to book value of liabilities	9,050,884	-	9,050,884	6,258,002	-	6,258,002
Long-term debts	6,155,903	-	6,155,903	1,912,508	-	1,912,508
Lease account payable – noncurrent	73,111	-	73,111	79,459	-	79,459
Returnable deposits	92,647	-	92,647	75,650	-	75,650
Off-balance sheets financial instruments:						
Loan guarantee	-	-	718,886	-	-	-
Letter of credit	-	-	2,444,076	-	-	2,100,459

The methods and assumptions used to estimate the fair value of financial instruments above are summarized as follows:

(i) Fair value equivalent assets and liabilities: These are short-term financial instruments whose maturity dates are near the balance sheet date so that their fair values are estimated based on the book value at the balance sheet date. These include the accounts cash and cash equivalents, notes and accounts receivable and payable (including related parties), other financial assets – current, short-term borrowings, short-term commercial papers payable, accrued expenses and other payables.

(ii) Available-for-sale financial assets: The fair values of these instruments are determined by the closing prices of common stock of listed companies or the net worth of funds at the balance sheet date.

(iii) Financial assets carried at cost: These are investments in non-listed companies with no open-market price, and whose fair value cannot be reasonably estimated.

(iv) Other financial assets – noncurrent: These are guarantee deposits paid for operations whose refund dates are uncertain. Due to difficulty of estimating their fair value by discounting future cash flow; the fair value is determined based on book value.

(v) Long-term debts: The fair values of long-term debts are determined based on the discounted future cash flows. Because the borrowing interest rates are floating, the carrying values of long-term debts approximate the market value.

(vi) Guarantee deposits: There is no exact due date for guarantee deposits. The fair values are estimated to be equal to the carrying amounts as of December 31, 2011 and 2010.

(vii) Lease payable-noncurrent: The fair value is determined based on market value if there is available market value. If not, the fair value is estimated by the discounted estimated future cash inflows. The discount rate is based on available borrowing interest rate.

(viii) Guarantee for borrowings: The amount of TSRC's guarantee for bank loans of the investees equal to potential loss. The amount of guarantee is estimated to be equal the fair value of borrowing contract.

(ix) Letter of credit: Fair value of the unused letter of credit intended for purchasing raw materials, machinery and equipment is determined by contract because the due date of letter of credit is close to balance sheet date.

**2. As of December 31, 2011 and 2010, TSRC group provides financial assets as deposit in an escrow account for enterprise safety production risk. Please see note 6.**

### 3. Disclosures of financial risks

#### (i) Market risk

Equity securities that TSRC group owns are classified as available-for-sale financial assets. Because these instruments are re-measured by fair values, TSRC group is exposed to the risks of changes in market prices.

TSRC group is exposed to foreign currency risk on accounts receivable which are denominated in a currency other than New Taiwan dollars. The above foreign currency risk will be offset by the same risk related to those short-term borrowings which are denominated in a foreign currency, and will be hedged by forward exchange contracts. Therefore, TSRC group believes its exposure to foreign currency risk is low.

The significant financial assets and liabilities denominated in foreign currencies were as follows:

Financial assets	Dec.31, 2011			Dec.31, 2010		
	Foreign currency (in thousands)	Exchange rate	NTD	Foreign currency (in thousands)	Exchange rate	NTD
Monetary assets:						
USD	\$ 87,368	30,290	2,646,377	242,544	29.1300	7,065,318
EUR	8,452	38.990	329,543	2,021	38.6600	78,139
JPY	150,363	0.3886	58,431	17,080	0.3556	6,074
			<u>\$ 3,034,351</u>			<u>7,149,531</u>
Investments accounted for using equity method:						
USD	\$ 33,195	30.290	1,005,468	19,639	29.1300	572,070
Financial liabilities						
Monetary assets:						
USD	\$ 353,409	30.290	10,704,759	210,470	29.1300	6,130,980
EUR	4,267	38.990	166,370	2,093	38.6600	80,915
JPY	263,233	0.3886	102,292	22,200	0.3556	7,894
			<u>\$ 10,973,421</u>			<u>6,219,789</u>

(ii)Credit risk

TSRC group's cash and cash equivalents, available-for-sale financial assets and accounts receivable are the main source of potential risk of credit. TSRC group deposits its cash and cash equivalents in different financial institutions, and the available-for-sale financial assets are an open-end bond fund with good credit quality rating and shares of a listed corporation. In addition, TSRC group has no concentration of credit risk on an individual customer. Therefore, TSRC group concluded that it is not exposed to credit risk.

TSRC group guarantees bank loans for the investees. TSRC group concluded that it is not exposed to credit risk for these transactions.

(iii)Liquidity risk

TSRC group has sufficient working capital to fulfill its financial obligations and therefore, TSRC group's exposure to liquidity risk is low.

TSRC group's available-for-sale financial assets have market prices and are expected to be sold promptly at fair value. Therefore, the liquidity risk is not significant. In addition, the liquidity risk from financial assets carried at cost is expected because no market price exists.

(iv)Cash flow risk related to the fluctuation of interest rates

TSRC group's long-term debts bear floating interest rates. As a result, the effective rate changes along with the fluctuation of the market interest rate influences TSRC group's future cash flow. As of December 31, 2011 and 2010, TSRC group has financial liabilities with cash flow risk amounting to \$6,155,903 thousand and \$1,912,508 thousand, respectively. If the market interest rate will increase by 1%, TSRC group's future cash outflow would increase by approximately \$61,559 thousand and \$19,125 thousand, respectively.

## 5. Transactions with Related Parties

### (a)Name and relationship of related party

Name of Related Party	Relationship with TSRC group
Continental Engineering Corporation	The company's president is one of TSRC group's directors.
Marubeni Corporation	Director of Shen Hua Chemical Industrial Co., Ltd.
Nantong Chemical & Light Industry Co., Ltd.	Parent company of Nantong Benny Petrochemicals Harbour Storage Co., Ltd.
Shin Dah Development Corporation Limited	Investee 45% owned by TSRC group
CEC Security Corporation	A related party in substance.
Lanxess-TSRC (Nantong) Chemical industrial Corporation Limited	Investee is owned by joint venture investment
UBE Industries, Ltd.	Director of TSRC – UBE (Nantong) Chemical Industrial Corporation Limited
Directors, supervisors, general manager and vice general manager	Directors, supervisors and top management of Corporation

### (b)Significant transactions

#### 1.Purchases and accounts payable

For the years ended December 31, 2011 and 2010, the purchases from related parties were summarized as follows:

	2011		2010	
		Percentage of net purchases		Percentage of net purchases
Marubeni Corporation	<u>\$ 2,581,068</u>	<u>10.69</u>	<u>\$ 2,822,184</u>	<u>10.57</u>

As of December 31, 2011 and 2010, the accounts payable from related parties were summarized as follows:

	Dec.31, 2011		Dec.31, 2010	
	Amount	Percentage of net purchases	Amount	Percentage of net purchases
Marubeni Corporation	<u>\$ 276,570</u>	<u>10.59</u>	<u>317,091</u>	<u>16.89</u>

Transaction terms for related parties were not significantly different from those for other customers.

## 2.Storage Service revenue

Significant storage service revenues from related parties were as follow:

	2011	2010
Nantong Chemical & Light Industry Co., Ltd.	\$ 31,805	37,384
Lanxess-TSRC (Nantong) Chemical Industrial Corporation Limited	44,778	-
	<u>\$ 76,583</u>	<u>37,384</u>

As of December 31, 2011 and 2010, receivables from the above services were \$18,128 thousand and \$48 thousand, respectively, recorded as other financial assets—current.

## 3.Service Fees

For the years ended December 31, 2011 and 2010, the service fees provided to UBE (Nantong) Chemical Industrial Corporation Limited by UBE (shanghai) Ltd. were \$2,943 thousand and \$3,296 thousand, respectively. As of December 31, 2011 and 2010, the related payables were \$302 thousand and \$279 thousand, respectively, which were accounted for as accrued expenses and other current liabilities.

## 4.Property transaction

In 2005, TSRC sold for \$30,375 thousand the long-term investments in Hsin-Yung Enterprise Corp. to Shin Dah Development Corporation Limited with carrying value of \$13,207 thousand, which resulted in unrealized inter-company gain from the disposal of long-term investments of \$7,726 thousand. Such unrealized gain was accounted for as other liabilities—others. As Shin Dah Development Corporation Limited was liquidated as of December 23, 2010, the said unrealized gain of \$7,726 thousand was transferred on liquidation to non-operating income—disposal of long-term investments, net.

## 5.Guarantees

As of December 31, 2011 and 2010, TSRC group's guarantees for bank loans of investees were as follows:

	Dec.31, 2011	Dec.31, 2010
Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd.	<u>\$ 718,886</u>	<u>-</u>

## 6.Others

(i)In July 2004, TSRC entered into a lease contract for the Duen Nan office building with Continental Engineering Corporation, and the lease period is from August 2004 to October 2012. In November 2004, TSRC began to receive rental income. As of December 31, 2011 and 2010, TSRC received rental deposits both amounting to \$821 thousand. Rental income for the years ended December 31, 2011 and 2010 amounted to \$3,630 thousand and \$3,478 thousand, respectively, which was accounted as non-operating income and gains—rental income. As of December 31, 2011 and 2010, there was no outstanding accounts receivable from this lease.

(ii)In 2010, TSRC entered into a lease contract for the Duen Nan office building with Continental Engineering Corporation. As of December 31, 2010, TSRC paid a deposit of \$1,364 thousand, which was recorded as other financial assets—noncurrent. As of December 31, 2011, such lease deposit has been collected. For the years ended December 31, 2011 and 2010, rental expense amounted to \$5,657 thousand and \$4,582 thousand, respectively. As of December 31, 2011 and 2010, unpaid rental amounted to \$105 thousand and \$205 thousand, respectively, which was recorded as accrued expenses and other current liabilities.

(iii)For the years ended December 31, 2011 and 2010, CEC Security Corporation provided security services to and billed TSRC for service fees of \$5,547 thousand and \$5,561 thousand, respectively, which were charged to cost of sales and operating expenses. As of December 31, 2011 and 2010, unpaid service fees amounted to \$947 thousand and \$1,505 thousand, respectively, which were recorded as accrued expenses and other current liabilities.

## 7.Directors, supervisors and top management compensation

As of December 31, 2011 and 2010, the compensation to TSRC group's directors, supervisors and top management was as follows:

	2011	2010
Salaries	\$ 71,873	57,274
Cash awards and special allowances	15,243	11,780
Transportation allowances and business expense	4,056	3,730
Employees' bonus	3,741	2,487

For the details of the above amounts, including estimated employees' bonus and directors' and supervisors' emoluments, please see note 4(m).

## 6.Pledged Assets

Pledged assets	Purpose	Dec.31, 2011	Dec.31, 2010
Fixed assets-land	Guarantee for long-term debts	\$ 175,850	175,850
Idle assets-land	Guarantee for long-term debts	120,221	120,221
Lease assets-land	Guarantee for long-term debts	81,444	81,444
Buildings and structures	Guarantee for long-term debts	146,706	155,648
Restricted savings deposits (note)	Deposit for enterprise safety production risk and guarantee for equipment purchase letter of credit	5,755	5,329
Intangible assets	Guarantee for long-term debts	52,779	49,920
		<u>\$ 582,755</u>	<u>588,412</u>

Note: The above restricted savings deposits were accounted for as other financial assets – noncurrent.

## 7.Significant Commitments and Contingencies

(a)As of December 31, 2011 and 2010, unused letters of credit issued for purchases of materials and equipment amounted to \$2,444,076 thousand and \$2,100,459 thousand, respectively.

(b)As of December 31, 2011, TSRC signed construction and design contracts with several factories totaling \$132,065 thousand, of which \$54,284 thousand was paid.

**8.Significant Losses from Calamity: None.**

**9.Significant Subsequent Events: None.**

## 10.Others

(a)In 2011 and 2010, the employment expenses, depreciation and amortization, summarized by function, were as follows:

By function By nature	2011			2010		
	Cost of goods sold	Operating expenses	Total	Cost of goods sold	Operating expenses	Total
Personnel expenses						
Salaries and wages	675,027	442,856	1,117,883	508,340	301,818	810,158
Labor and health insurance	47,387	26,691	74,078	34,853	16,725	51,578
Pension (note 1)	45,193	23,476	68,669	41,776	19,562	61,338
Other personnel expenses (note 2)	140,267	97,464	237,731	89,621	61,784	151,405
Depreciation (notes 3)	574,782	100,733	675,515	626,595	49,709	676,304
Amortization	2,549	91,289	93,838	744	18,018	18,762



Note 1: Pension expenses excluded expenses for employees on international assignments amounting to \$1,631 thousand and \$2,086 thousand for the years ended December 31, 2011 and 2010, respectively.

Note 2: Others personnel expenses included meals, employee welfares, training expense and employees' bonus.

Note 3: Depreciation expense for lease and idle assets was excluded. For the years ended December 31, 2011 and 2010, total depreciation expense for lease and idle assets amounted to \$52,927 thousand and \$78,026 thousand, respectively.

**(b)Acquisition of Dexco Polymers LP and Dexco Polymers Operating Company LLC. ( referred to as Dexco and Dexco Polymers LLC hereinafter):**

1. TSRC invested in TSRC (USA) Investment Corporation ( founded on January 27, 2011 ) via Trimurti Holding Corporation purposely to purchase Dexco in Louisiana, USA. The transaction date of this business acquisition was effective April 1, 2011. The major business of Dexco is manufacturing and selling SIS and SBS products, and its main customers are located in the United States and Europe. The accounting of business acquisition was in compliance with SFAS No.25 "Business Combination" . The difference between purchase price and fair value of identifiable assets was recognized as goodwill. TSRC group's purchase price and goodwill were calculated as follows (US dollars in thousands):

	Amount
The purchase price	\$ <u>192,617</u>
Less: The fair value of recognized assets:	
Trademark (note)	4,200
Patent (note)	15,700
Know-how (note)	27,600
Non compete (note)	300
Emission rights (note)	395
Working capital	33,549
Fixed assets	30,285
Inventories	<u>37,819</u>
	<u>149,848</u>
Goodwill	<u>\$ 42,769</u>

Note: The fair value of intangible assets was based on the report of American Appraisal issued on August 10, 2011.

2. According to SFAS No.25 "Business Combination" , the effects to net income and EPS were as follows, assuming the TSRC group acquired Dexco Polymers LP effective January 1, 2010:

	2011	2010
Gross sale	<u>\$ 56,405,227</u>	<u>41,700,678</u>
Net income before tax	<u>\$ 10,548,113</u>	<u>5,709,677</u>
Net income after tax	<u>\$ 7,590,498</u>	<u>4,543,651</u>
Projected EPS	<u>\$ 10.62</u>	<u>6.36</u>

3. Reclassification

Certain amounts in the financial statements for the year ended December 31, 2010, have been reclassified to conform to the presentation of the financial statement for the year ended December 31, 2011, for purposes of comparison. These reclassifications do not have a significant impact on the presentation of the financial statements.

4. According to regulation No.0990004943 of Financial Supervisory Commission, Executive Yuan, financial statements of listed companies and emerging companies should be in accordance with International Financial Reporting Standards (IFRSs) translated and delivered by Accounting Research and Development Foundation (ARDF) from 2013. In response to the above regulation, TSRC group has established a project team for implementing IFRS's program. The vice president of Finance department, Hui-Chung Chen, is the person in charge. The contents of this project, deadlines and current status were as follows:

Contents of project	Major implementing units	Current status
1.Stage of assessment (Jan 1, 2010~Dec 31, 2011):		
● Implement IRFSs and establish a project team	Accounting Department	Accomplished
● Internal trainings for employees for the first stage	Accounting Department	Accomplished
● Compare and analysis the difference between current accounting standards and IFRSs	Accounting Department	Accomplished
● Assess the adjustments for current accounting standards	Accounting Department	Accomplished
● Assess the adoption of IFRS 1 "First-time adoption of International Financial Reporting Standards"	Accounting Department	Accomplished
● Assess related information system and adjustments needed for internal controls	Accounting Department IT Department	Accomplished
2.Stage of preparation (Jan 1, 2011~Dec 31, 2012):		
● Decision made for adjusting current accounting standards to IFRSs	Accounting Department	Accomplished
● Decision made for applying IFRS 1 "First-time adoption of International Financial Reporting Standards"	Accounting Department	Accomplished
● Adjust related information system and internal controls	Accounting Department IT Department	Accomplished
● Internal trainings for employees for the second stage	Accounting Department	Accomplished
3.Stage of implementation (Jan 1, 2012~Dec 31, 2013):		
● Test the operation of related information system	Accounting Department IT Department	Actively in progress
● Gather information and prepare balance sheet as of Jan 1, 2012, in accordance with IFRSs and comparative financial statements	Accounting Department	Actively in progress
● Preparation of financial statements in accordance with IFRSs	Accounting Department	Actively in progress

TSRC group assessed differences between the current accounting standards and IFRS, and the significant differences were as follows:

Accounting Issues	Explanation for the difference
Long-term investments accounted for by the equity method	Taiwan:When the company subscribes for additional investee's shares at a percentage different from its ownership percentage, it causes an increase in the carrying amount of the company's investment in investee, comparing to its share of the investee's equity. Such increase is adjusted against the capital surplus. IFRS:When the company subscribes for additional investee's shares at a percentage different from its ownership percentage, it causes an increase in the carrying amount of the company's investment in investee, comparing to its share of the investee's equity. Such increase is adjusted against the retained earnings.
Accounting for financial instrument	Taiwan:Because the investments are non-listing companies and therefore, there is no open-market price. The book value is used as a basic of measurement IFRS:The company re-measures the values of financial assets in accordance with IAS 39; only if the fair value cannot be reliably measured, book value is used as a basis of measurement.
Accounting for employee benefits	Taiwan:Actuarial gains and losses are amortized to the profit or loss within a specific period. IFRS:Actuarial gains and losses can be recognized under other comprehensive income or recognized immediately as profit or loss. It can also be amortized to profit or loss adopting the corridor method.
Accounting for income tax	Taiwan:Land revaluation increments are accounted for as 'reserve for land value increment tax' . IFRS:Land is measured at cost. The land revaluation increments should transfer to deferred tax liabilities.
Accounting for income tax	Taiwan: Deferred tax assets/liabilities would be classified as current or non-current accounts. IFRS: Deferred tax assets/liabilities would be classified as non-current accounts only.

TSRC group adopts IFRSs that have been recognized by Financial Supervisory Commission, Executive Yuan. The significant differences above were assessed in accordance with current statuses, and these differences will be revised if the situations change later.

## 11. Supplementary Disclosure Requirements

### (a) Substantial transactions:

1. Loans extended to other parties: None.

2. Guaranty provided to other parties:

No. (Note 1)	Corporation name	Object		The maximum guaranty credit line for one party	The maximum amount for guaranty	Balance as of 2011.12.31	Secured guaranty amount	The proportion of accumulated guarantee amounts to the Corporation's net equity	The maximum guaranty credit lines
		Name	Nature of relationship (Note 2)						
0	The Corporation	TSRC (USA) Investment Corporation	3	50% of the Corporation's issued share capital (\$3,574,502)	3,180,450 (USD105,000,000)	3,180,450 (USD105,000,000)	—	18.53%	1.5 times the Corporation's total stockholders' equity (\$25,751,175)
0	The Corporation	TSRC (Nantong) Industries Ltd.	3		757,250 (USD25,000,000)	757,250 (USD25,000,000)	—	4.41%	
0	The Corporation	TSRC-UBE (Nantong) Chemical Industrial Corporation Limited	3		666,380 (USD22,000,000)	666,380 (USD22,000,000)	—	3.88%	
0	The Corporation	TSRC (Jinan) Industries Ltd.	3		68,153 (USD2,250,000)	68,153 (USD2,250,000)	—	4.00%	
0	The Corporation	Lanxess-TSRC (Nantong) Chemical Industrial Corporation Limited	6		718,886 (RMB 40,000) (USD17,400,000)	718,886 (RMB 40,000) (USD17,400,000)	—	4.19%	

Note 1: The information about endorsement/guarantee of the Company and subsidiaries is numbered as following:

1.0 for the Company.

2. Subsidiaries are numbered in Arabic numeric order as of 1.

Note 2: Relationship between the endorsed/guaranteed and the Company:

1. Companies that have transactions with the Company.

2. Subsidiaries where the Company has direct holdings of more than 50% of the common shares.

3. The investee of which the total common shares held by parent company and subsidiaries are more than 50%.

4. Parent company that holds more than 50% common shares directly, or indirectly via subsidiaries.

5. Companies that shall provide guarantee mutually pursuant to contracts in the same trade to meet the requirement for construction contracts.

6. Companies endorsed and guaranteed by shareholders subject to their respective shareholdings due to the joint venture.

Note 3: The said subsidiaries and indirect subsidiaries have been offset in the preparation of the consolidated financial statements.

### 3. Securities held as of December 31, 2011:

Name of the security holder	Type of security	Name of security	Nature of relationship	Recorded account	December 31, 2011				Remarks
					Unit	Book value	Holding percentage	Market price (net equity)	
The Corporation	Commercial Paper	Repurchase securities	—	Cash and cash equivalents	—	<u>1,354,442</u>	—	<u>1,354,442</u>	—
The Corporation	Stock	Trimurti Holding Corporation (Note 3)	Subsidiary	Investments accounted for by the equity method	86,920,000	10,033,423	100.00%	10,052,048	—
The Corporation	Stock	Hardison International Corporation	Subsidiary	Investments accounted for by the equity method	4,419,305	410,700	100.00%	410,700	—

Name of the security holder	Type of security	Name of security	Nature of relationship	Recorded account	December 31, 2011				Remarks
					Unit	Book value	Holding percentage	Market price (net equity)	
The Corporation	Stock	Dymas Corporation	Subsidiary	Investments accounted for by the equity method	1,287,624	73,820	19.48%	73,820	(Note 1)
		Subtotal				<u>10,517,943</u>		<u>10,536,568</u>	
The Corporation	Stock	Taiwan High Speed Rail Corp.	—	Investments carried at cost	50,000,000	500,000	0.77%	(Note 2)	—
The Corporation	Stock	Wei Dah Investment Co., Ltd.	—	Investments carried at cost	21,600,000	244,073	18.00%	(Note 2)	—
The Corporation	Stock	Evergreen Development Corp.	—	Investments carried at cost	12,148,000	209,878	2.97%	(Note 2)	—
The Corporation	Stock	Thai Synthetic Rubbers Co., Ltd.	—	Investments carried at cost	599,999	65,143	5.42%	(Note 2)	—
The Corporation	Stock	Hsin-Yung Enterprise Corp.	—	Investments carried at cost	5,657,000	64,296	3.90%	(Note 2)	—
		Subtotal				<u>1,083,390</u>			

Note 1: TSRC directly owns 19.48% of the company's equity and indirectly owns 80.52% via Hardison International Corporation.

Note 2: Neither public market price nor financial statements provided by the investees were available for estimation of net equity.

Note 3: The said subsidiaries and indirect subsidiaries have been offset in the preparation of the consolidated financial statements.

#### 4. Accumulated holding amount of a single security in excess of \$100 million or 20% of TSRC's issued share capital:

Unit: NTS in thousands / shares in thousands

Corporation name	Marketable securities type and name	Financial statement account	Name of the counter-party	Relationship with the Corporation	Beginning balance		Acquisition		Disposal				Loss on valuation	Ending balance	
					Shares	Amount	Shares	Amount	Shares	Selling price	Carrying value	Gains (losses) on disposal		Shares	Amount
The Corporation	PCA Well Pool Money Market Fund	Available -for-sale financial assets - current	PCA Securities Investment Trust Co., Ltd.	—	—	—	11,495,515.50	150,000	11,495,515.50	150,287	150,000	287	—	—	—
The Corporation	Fubon chi-Hsiang Money Market Fund	Available -for-sale financial assets - current	Fubon Asset Management Co., Ltd.	—	—	—	13,235,774.20	200,000	13,235,774.20	200,218	200,000	218	—	—	—

Corporation name	Marketable securities type and name	Financial statement account	Name of the counter-party	Relationship with the Corporation	Beginning balance		Acquisition		Disposal				Loss on valuation	Ending balance	
					Shares	Amount	Shares	Amount	Shares	Selling price	Carrying value	Gains (losses) on disposal		Shares	Amount
The Corporation	KGI Victory Money Market Fund	Available -for-sale financial assets - current	KGI Securities Investment Trust Co., Ltd.	—	—	—	17,963,641.63	200,000	17,963,641.63	200,465	200,000	465	—	—	—
The Corporation	Union Money Market Fund	Available -for-sale financial assets - current	Union Securities Investment Trust Co., Ltd.	—	—	—	15,780,462.26	200,000	15,780,462.26	200,480	200,000	480	—	—	—
The Corporation	Yuanta Money Market Fund	Available -for-sale financial assets - current	Yuanta Securities Investment Trust Co., Ltd.	—	—	—	9,621,829.30	140,000	9,621,829.30	140,167	140,000	167	—	—	—

5.Acquisition of real estate in excess of \$100 million or 20% of TSRC's issued share capital: None.

6.Disposal of real estate in excess of \$100 million or 20% of TSRC's issued share capital: None.

7.Sales to and purchases from related parties in excess of \$100 million or 20% of TSRC's issued share capital: None

8.Receivables from related parties in excess of \$100 million or 20% of TSRC's issued share capital: None

9.Financial derivative instruments transactions: None.

**(b) Investee information:**

**1.Relevant information about investees:**

Name of investor	Name of investee	Address	Scope of business	Original cost		The Corporation's ownership as of Dec. 31, 2011			Net income (loss) of the investee	Investment income (loss) recognized by the Corporation	Remarks
				December 31, 2011	December 31, 2010	Shares	Percentage	Book value			
TSRC	Trimurti Holding Corporation	Palm Grove House, P.O.BOX 438, Road Town, Tortola B.V.I	Investment Corporation	1,005,495	1,005,495	86,920,000	100.00%	10,033,423	3,478,833	3,481,592	Subsidiary corporation
TSRC	Hardison International Corporation	Palm Grove House, P.O.BOX 438, Road Town, Tortola B.V.I	Investment Corporation	125,142	125,142	4,419,305	100.00%	410,700	36,108	36,108	Subsidiary corporation
TSRC	Dymas Corporation	Palm Grove House, P.O.BOX 438, Road Town, Tortola B.V.I	Investment Corporation	42,170	42,170	1,287,624	19.48%	73,820	38,761	7,551	Subsidiary corporation
Trimurti Holding Corporation	Polybus Corporation Pte. Ltd.	9, Temasek Boulevard, 31F Suntec Tower 2, Singapore 038989	International commerce and trading	USD 65,101,000	USD 65,101,000	105,830,000	100.00%	8,719,484	3,324,714	3,348,386 (Note 1)	Indirectly owned subsidiary
Trimurti Holding Corporation	TSRC (HONG KONG) Limited.	Suite 2303 23F Great Eagle Centre 23 Harbour Road Wanchai HK	Investment Corporation	USD 7,800,000	USD 7,800,000	7,800,000	100.00%	281,907	6,027	6,027 (Note 1)	Indirectly owned subsidiary
Trimurti Holding Corporation	Indian Synthetic Rubber Limited	Room No.702, Indian Oil Bhawan, I Sri Aurobindo Marg, Yusuf Sarai, New Delhi-110016, India	Production and sale of SBR synthetic rubber	USD 11,757,366	USD 11,757,366	56,250,000	30.00%	314,484	(24,877)	(7,463)	—

Name of investor	Name of investee	Address	Scope of business	Original cost		The Corporation's ownership as of Dec. 31, 2011			Net income (loss) of the investee	Investment income (loss) recognized by the Corporation	Remarks
				December 31, 2011	December 31, 2010	Shares	Percentage	Book value			
Trimurti Holding Corporation	TSRC(USA) Investment Corporation	2711Centerville Road, Suite 400, Country of New Castle, Wilmington, Delaware,19808.	Investment Corporation	USD 70,050,000	—	100	100.00% (Note 2)	2,330,991	203,499	203,499 (Note 1)	Indirectly owned subsidiary
TSRC(USA) Investment Corporation	Dexco Polymers LP	12012 Wickchester Lane, Suite 280, Houston, TX 77079	Production and sale of synthetic rubber puoducts	USD 192,616,912	USD —	100	100.00% (Note 2)	2,566,516	482,458	384,464 (Note 1)	Indirectly owned subsidiary
TSRC (HONG KONG) Limited.	TSRC (Shanghai) Industries Ltd.	No. 1406, Yu Shu Road, Hi-tech Park Songjiang Zone, Shanghai, P.R.C.	Production and sale of compounding materials	USD 5,500,000	USD 5,500,000	5,500,000	100.00%	250,657	8,831	8,831 (Note 1)	Indirectly owned subsidiary
TSRC (HONG KONG) Limited.	TSRC(Lux.) Corporation S. ' a. r. l.	37, rue d'Anvers, L1130 Luxembourg	International commerce and trading	EUR 800,000	—	800,000	100.00%	19,156	(12,567)	(12,567)	Indirectly owned subsidiary
TSRC (HONG KONG) Limited.	TSRC (Jinan) Industries Ltd.	No. 666 LinGang St., Yao Qiang Town, Li Cheng Zone, Jinan City, Shan Dong, P.R.C.	Production and sale of compounding materials	USD 2,250,000	USD 2,250,000	2,250,000	100.00%	(30,696)	10,162	10,162 (Note 1)	Indirectly owned subsidiary
Polybus Corporation Pte. Ltd.	TSRC (Nantong) Industries Ltd.	No. 22 Tong Wang Road, Nantong Economic & Technological Development Area, Nantong Jiangsu, P.R.C.	Production and sale of SEBS	USD 43,885,000	USD 41,025,000	43,885,000	100.00%	2,087,239	452,241	452,241 (Note 1)	Indirectly owned subsidiary
Polybus Corporation Pte. Ltd.	TSRC-UBE (Nantong) Chemical Industries Company. Ltd.	No. 22 Tong Wang Road, Nantong Economic & Technological Development Area, Nantong Jiangsu, P.R.C.	Production and sale of BR	USD 22,000,000	USD 22,000,000	22,000,000	55.00%	1,499,679	1,055,278	580,403 (Note 1)	Indirectly owned subsidiary
Polybus Corporation Pte. Ltd.	Shen Hua Chemical Industrial Co., Ltd.	NO.1 Shen Hua Road, Nantong Economic & Technology Development Area, Nantong Jiangsu, P.R.C.	Production and sale of SBR	USD 19,867,016	USD 19,867,016	26,974,368	65.44%	4,203,932	3,647,159	2,386,701 (Note 1)	Indirectly owned subsidiary
Polybus Corporation Pte. Ltd.	Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd.	NO.1 Shen Hua Road, Nantong Economic & Technology Development Area, Nantong Jiangsu, P.R.C.	Production and sale of NRB	USD 12,400,000	USD 7,000,000	12,400,000	50.00%	381,238	(10,196)	(5,098) (Note 1)	—
Hardison International Corporation	Triton International Holdings Corporation	Palm Grove House, P.O.BOX 438, Road Town, Tortola B.V.I	Investment Corporation	USD 50,000	USD 50,000	50,000	100.00%	101,261	4,132	4,132 (Note 1)	Indirectly owned subsidiary
Hardison International Corporation	Dymas Corporation	Palm Grove House, P.O.BOX 438, Road Town, Tortola B.V.I	Investment Corporation	USD 5,321,946	USD 5,321,946	5,321,946	80.52%	305,133	38,761	32,198 (Note 1)	Indirectly owned subsidiary
Hardison International Corporation	TSRC Biotech Ltd.	4th F1., Harbour Centre, P.O.BOX613, George Town, Grand Cayman	Investment Corporation	USD 3,020,210	USD 3,020,210	3,020,210	100.00%	30	(168)	(168) (Note 1)	Indirectly owned subsidiary
Triton International Holdings Corporation	Nantong Qix Storage Co., Ltd.	No. 111 He Xing Road, Nantong Economic & Technological Development Area, Nantong, Jiangsu, P.R.C.	Chemical storage management	USD 1,500,000	USD 1,500,000	1,500,000	50.00%	91,714	8,265	4,133 (Note 1)	Indirectly owned subsidiary
Dymas Corporation	Asia Pacific Energy Development Co., Ltd.	Cayman Islands	Consulting for electric power facilities management and electrical system design	USD 11,939,238	USD 11,939,238	8,176,453	37.78%	309,746	14,302	38,837 (Note 1)	—

Note 1: note 1: Investment income (loss) of the indirectly owned subsidiaries was recognized in current income (loss) of the holding company.

Note 2: TSRC (USA) Investment Corporation is limited partner of Dexco LLC and Dexco Polymers LP. Also, TSRC (USA) Investment Corporation invested Dexco LLC as general partner of Dexco Polymers LP. Because Dexco LLC does not have real operation, the related information of Dexco LLC is not disclosed.

Note 3: The said subsidiaries and indirect subsidiaries have been offset in the preparation of the consolidated financial statements.

2.Loans extended to other parties: None.

3.Guaranty provided to other parties: None.

4.Securities held as of December 31, 2011:

Name of the security holder	Type of security	Name of security	Nature of relationship	Recorded account	December 31, 2011				Remarks
					Unit	Book value	Holding percentage	Market price (net equity)	
Trimurti Holding Corporation	Stock	Polybus Corporation Pte. Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	105,830,000	8,719,484	100.00%	8,716,754	—
Trimurti Holding Corporation	Stock	TSRC (HONG KONG) Limited.	Investee accounted for by the equity method	Investments accounted for by the equity method	7,800,000	281,907	100.00%	281,907	—
Trimurti Holding Corporation	Stock	Indian Synthetic Rubber Limited	Investee accounted for by the equity method	Investments accounted for by the equity method	56,250,000	314,484	30.00%	314,484	—
Trimurti Holding Corporation	Stock	TSRC (USA) Investment Corporation	Investee accounted for by the equity method	Investments accounted for by the equity method	100	2,330,991	100.00%	2,330,991	—
TSRC (USA) Investment Corporation	Certificate of ownership	Dexco Polymers LP.	Investee accounted for by the equity method	Investments accounted for by the equity method	100	2,566,516	100.00%	2,566,516	—
TSRC (HONG KONG) Limited.	Certificate of ownership	TSRC (Shanghai) Industries Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	5,500,000	250,657	100.00%	250,657	—
TSRC (HONG KONG) Limited.	Certificate of ownership	TSRC (Lux.) Corporation S.' a. r. l.	Investee accounted for by the equity method	Investments accounted for by the equity method	800,000	19,156	100.00%	19,156	—
TSRC (HONG KONG) Limited.	Certificate of ownership	TSRC (Jinan) Industries Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	2,250,000	(30,696)	100.00%	(30,696)	—
Polybus Corporation Pte. Ltd.	Certificate of ownership	TSRC (Nantong) Industries Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	43,885,000	2,087,239	100.00%	2,087,239	—
Polybus Corporation Pte. Ltd.	Certificate of ownership	TSRC-UBE (Nantong) Chemical Industrial Co. Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	22,000,000	1,499,679	55.00%	1,499,679	—
Polybus Corporation Pte. Ltd.	Certificate of ownership	Shen Hua Chemical Industrial Co. Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	26,974,368	4,203,932	65.44%	4,187,017	—
Polybus Corporation Pte. Ltd.	Certificate of ownership	Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	12,400,000	381,238	50.00%	381,238	—
Hardison International Corporation	Stock	Triton International Holdings Corporation	Investee accounted for by the equity method	Investments accounted for by the equity method	50,000	101,261	100.00%	101,261	—
Hardison International Corporation	Stock	Dymas Corporation	Investee accounted for by the equity method	Investments accounted for by the equity method	5,321,946	305,133	80.52%	305,133	—
Hardison International Corporation	Stock	TSRC Biotech Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	3,020,210	30	100.00%	30	—
TSRC Biotech Ltd.	Preferred stock	Pulse Meteric Inc.	—	Investments carried at cost	312,500	—	6.23%	(Note 1)	—
TSRC Biotech Ltd.	Stock	CytoPharm, Inc.	—	Investments carried at cost	95,108	—	0.30%	(Note 1)	—
Dymas Corporation	Stock	Thai Synthetic Rubbers Co., Ltd.	—	Investments carried at cost	837,552	57,828	7.57%	(Note 1)	—
Dymas Corporation	Stock	Asia Pacific Energy Development Co., Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	8,176,453	309,746	37.78%	309,746	—
Triton International Holdings Corporation	Certificate of ownership	Nantong Qix Storage Co., Ltd.	Investee accounted for by the equity method	Investments accounted for by the equity method	1,500,000	91,714	50.00%	91,714	—

Note 1: No public market price was available and no financial statements provided by the investees for purposes of estimating the net equity.

Note 2: The said subsidiaries and indirect subsidiaries have been offset in the preparation of the consolidated financial statements.



**5. Accumulated holding amount of a single security in excess of \$100 million or 20% of TSRC's issued share capital:**

Corporation name	Marketable securities type and name	Financial statement account	Name of the counter-party	Relationship with the Corporation	Beginning balance		Acquisition		Disposal				Ending balance	
					Shares	Amount	Shares	Amount	Shares	Selling price	Carrying value	Gains (losses) on disposal	Shares	Amount
Trimurti Holding Corporation	TSRC (USA) Investment Corporation	Investee accounted for by the equity method	New Corporation	—	—	—	100	2,060,731	—	—	—	—	100	2,060,731
Trimurti Holding Corporation	Indian Synthetic Rubber Limite	Investee accounted for by the equity method	—	—	15,000,000	102,837	41,250,000	250,327	—	—	—	—	56,250,000	353,614

Note: The said subsidiaries and indirect subsidiaries have been offset in the preparation of the consolidated financial statements.

**6. Acquisition of real estate in excess of \$100 million or 20% of TSRC's issued share capital: None.**

**7. Disposal of real estate in excess of \$100 million or 20% of TSRC's issued share capital: None.**

**8. Sales to and purchases from related parties in excess of \$100 million or 20% of TSRC's issued share capital:**

Purchasing (selling) company	Counter-party	Relationship	Details of transaction				The status and reason for deviation from regular transaction		Accounts (notes) receivable (payable)		Remarks
			Nature	Amount	% of total purchases (sales)	Credit period	Unit price	Credit period	Balance	% of accounts (notes) receivable (payable)	
TSRC-UBE (Nantong) Chemical Industrial Co., Ltd.	Marubeni Corporation	A director of TSRC UBE (Nantong) Chemical Industrial Co., Ltd.	Purchase	1,224,841	22.12%	30 days after shipping	—	—	(126,130)	(36.38)%	
Shen Hua Chemical Industrial Co. Ltd.	Marubeni Corporation	A director of Shen Hua Chemical Industrial Co. Ltd.	Purchase	1,356,227	9.14%	14 days	—	—	(150,440)	(32.77)%	
Shen Hua Chemical Industrial Co. Ltd.	A director of TSRC UBE (Nantong) Chemical Industrial Co., Ltd.	Related Parties.	Sale	(161,170)	(0.08)%	Pay off before shipping	—	—	—	—	
Shen Hua Chemical Industrial Co. Ltd.	TSRC (Nantong) Industries Ltd.	Related Parties.	Sale	(253,566)	(1.25)%	Pay off before shipping	—	—	—	—	
Shen Hua Chemical Industrial Co. Ltd.	Polybus Corporation Pte Ltd.	Related Parties.	Sale	(364,189)	(1.80)%	10 days	—	—	4,447	0.13%	
TSRC-UBE (Nantong) Chemical Industrial Co., Ltd.	Shen Hua Chemical Industrial company Ltd.	Related Parties.	Purchase	161,170	2.91%	Pay off before shipping	—	—	—	—	
TSRC (Nantong) Industries Ltd.	Shen Hua Chemical Industrial company Ltd.	Related Parties.	Purchase	253,566	14.19%	Pay off before shipping	—	—	—	—	
Polybus Corporation Pte Ltd.	Shen Hua Chemical Industrial company Ltd.	Related Parties.	Purchase	364,189	23.65%	10 days	—	—	(4,447)	(1.46)%	



Purchasing (selling) company	Counter-party	Relationship	Details of transaction				The status and reason for deviation from regular transaction		Accounts (notes) receivable (payable)		Remarks
			Nature	Amount	% of total purchases (sales)	Credit period	Unit price	Credit period	Balance	% of accounts (notes) receivable (payable)	
Polybus Corporation Pte Ltd.	TSRC (Nantong) Industries Ltd.	Related Parties.	Purchase	960,967	62.39%	40 days	—	—	(207,524)	(67.97)%	
TSRC (Nantong) Industries Ltd.	Polybus Corporation Pte Ltd.	Related Parties.	Sale	(960,967)	(32.26)%	40 days	—	—	207,524	59.12%	

Note: The said subsidiaries and indirect subsidiaries have been offset in the preparation of the consolidated financial statements.

**9.Receivables from related parties in excess of \$100 million or 20% of TSRC's issued share capital:**

Unit: in thousands of New Taiwan dollars

Corporation name	Counter-party	Relationship	Amount	Turnover	Overdue Amount		Subsequent receivable amount	Allowance for Uncollectible accounts
					Amount	Processing		
TSRC (Nantong) Industries Ltd.	Polybus Corporation Pte Ltd.	Related Parties.	207,524	10.42	—	—	204	—

Note : The said subsidiaries and indirect subsidiaries have been offset in the preparation of the consolidated financial statements.

**10.Financial derivative instruments transactions: None.**

**(c)Investment in China:**

**1.Summary of investment in China:**

Name of investee	Scope of business	Issued capital	Investment method	Accumulated remittance from Taiwan as of January 1, 2010	Amount remitted from or repatriated to Taiwan		Accumulated remittance from Taiwan as of December 31, 2008	Direct or indirect investment holding percentage	Investment income (loss) recognized in 2008 (Note2)	Book value as of Dec. 31, 2008	Accumulated amount repatriated to Taiwan as of Dec. 31, 2008
					Remittance	Repatriation					
Shen Hua Chemical Industrial company Ltd.	Production and sale of synthetic rubber	USD 41,220,000	Invest through third country first and then invest in China	—	—	—	—	65.44%	2,386,701	4,203,932	2,969,295
Wujing Asia Pacific Energy Cogeneration Co., Ltd.	Power generation and sale of electricity and heat	USD 27,130,000	Invest through third country first and then invest in China	116,082 (USD3,832,350)	—	—	116,082 (USD3,832,350)	28.34%	7,280	132,347	—
TSRC (Shanghai) Industries Ltd.	Production and sale of reengineering plastic, plastic-compound metal and plastic elasticity engineering products	USD 5,500,000	Invest through third country first and then invest in China	118,737 (USD3,920,000)	—	—	118,737 (USD3,920,000)	100.00%	8,831	250,657	—
Nantong Qix Storage Co., Ltd.	Storehouse for chemicals	USD 3,000,000	Invest through third country first and then invest in China	45,435 (USD1,500,000)	—	—	45,435 (USD1,500,000)	50.00%	4,133	91,714	—
TSRC-UBE (Nantong) Chemical Industrial company Ltd.	Production and sale of synthetic rubber products	USD 40,000,000	Invest through third country first and then invest in China	30,290 (USD1,000,000)	—	—	30,290 (USD1,000,000)	55.00%	580,403	1,499,679	—

Name of investee	Scope of business	Issued capital	Investment method	Accumulated remittance from Taiwan as of January 1, 2010	Amount remitted from or repatriated to Taiwan		Accumulated remittance from Taiwan as of December 31, 2008	Direct or indirect investment holding percentage	Investment income (loss) recognized in 2008 (Note2)	Book value as of Dec. 31, 2008	Accumulated amount repatriated to Taiwan as of Dec. 31, 2008
					Remittance	Repatriation					
TSRC (Nantong) Industries Ltd.	Production and sale of synthetic rubber products	USD 43,885,000	Invest through third country first and then invest in China	201,368 (USD6,648,000)	—	—	201,368 (USD6,648,000)	100.00%	452,241	2,087,239	—
TSRC (Jinan) Industries Ltd.	Production and sale of reengineering plastic, plastic compound metal and plastic elasticity engineering products	USD 2,250,000	Invest through third country first and then invest in China	68,153 (USD2,250,000)	—	—	68,153 (USD2,250,000)	100.00%	10,162	(30,696)	—
Lanxess-TSRC (Nantong) Chemical Industrial Co., Ltd.	Production and sale of NRB	USD 24,800,000	Invest through third country first and then invest in China	—	—	—	—	50.00%	(5,098)	381,238	—

## 2.Limitation on investment in Mainland China:

Accumulated remittance from Taiwan to China as of December 31, 2010	Investment amount approved by Investment Commission, Ministry of Economic Affairs	The maximum investment amount set by Investment Commission, Ministry of Economic Affairs
580,064(USD19,150,350)	1,329,075(USD43,878,351)	(Note 3)

Note 1: Foreign currencies in this report were translated based on the exchange rate at balance sheet date.

Note 2: The above related information disclosure was provided by TSRC. The investment amount was approved by the Investment Commission.

Note 3: In accordance with the "Regulations on Permission for Investment or Technical Cooperation in Mainland China" and the "Principles for Examination of Applications for Investment or Technical Cooperation in Mainland China" amended and ratified by the Executive Yuan on August 22, 2008, TSRC met the criteria of operational headquarters under the Statue of Industrial Innovation and obtained the approval from the Industrial Development Bureau, Ministry of Economic Affairs, on September 28, 2010. As it has an operational headquarters status, TSRC is not subject to the limitation as to the amount of investment in Mainland China as of December 31, 2011.

## 3.Substantial transactions directly or through third country with investees in China:

### (1) sales and accounts receivable

Sales to related parties are summarized as follows:

	2011	
	Amount	Percentage of net sales
TSRC (Shanghai) Industries Ltd.	\$ 55,675	0.27
TSRC (Nantong) Industries Co., Ltd.	52,320	0.25
TSRC (Jinan) Industries Ltd.	40,348	0.20
	<u>\$ 148,343</u>	<u>0.99</u>

The related accounts receivable resulting from the above sales as of December 31, 2011 and 2010, were as follows:

	Dec.31, 2011	
	Amount	Percentage of accounts and notes receivable
TSRC (Shanghai) Industries Ltd.	\$ 17,454	0.59
TSRC (Jinan) Industries Ltd.	13,391	0.45
TSRC (Nantong) Industries Co., Ltd.	16,476	0.55
	<u>\$ 47,321</u>	<u>1.59</u>

## 2.Services revenue

Nature	Name	Services revenue	Receivables
		2011	Dec.31, 2011
Management and technology services	Shen Hua Chemical Industrial Co., Ltd.	\$ 43,832	32,472
Management and technology services & trademark rights	TSRC (Shanghai) Industries Ltd.	5,238	4,434
Management and technology services & trademark rights	TSRC (Jinan) Industries Ltd.	3,991	3,368
Management and technology services	TSRC (Nantong) Industries Co., Ltd.	12,289	7,917
Management and technology services	TSRC-UBE (Nantong) Chemical Industrial Corporation Limited	22,551	7,216
Management and technology services	Lanxess-TSRC (Nantong) Chemical Industrial Corporation Limited	1,524	849
		<u>\$ 89,425</u>	<u>56,256</u>

## 3.Guarantees

As of December 31, 2011 and 2010, TSRC's guarantees for bank loans of investees were as follows:

	Dec.31, 2011
TSRC (Nantong) Industries Ltd.	\$ 757,250
TSRC-UBE (Nantong) Chemical Industrial Corporation Limited	666,380
TSRC (Jinan) Industries Ltd.	68,153
Lanxess-TSRC (Nantong) Chemical Industrial Corporation Limited	718,886
	<u>\$ 2,210,669</u>

## 4.Reimbursements

	Dec.31, 2011
TSRC (Jinan) Industries Ltd.	<u>\$ 2,507</u>

(5) TSRC sold machinery equipment to TSRC (Shanghai) Industrial Co., Ltd. in 2011 for the price of 1,340,000 and received a profit of 280,000 from such disposal. As of 31 December 2011, the amount receivable incurred from such transaction is 11,340,000.

(6) TSRC injected technology as in-kind capital into its subsidiaries TSRC (Nantong) Industrial Co., Ltd. and TSRC Yu Bu (Nantong) Chemical Industry Co., Ltd., which was originally recognized as other debt — deferred income from technology in-kind injection. Income is recognized after amortization in 2011 and 2010, with the following details:

	Dec.31, 2011
TSRC (Nantong) Industries Ltd.	\$ 13,306
TSRC-UBE (Nantong) Chemical Industrial Corporation Limited	3,235
	<u>\$ 16,541</u>

#### 4. Significant transactions and business relationship between parent company and subsidiaries:

(1) For the year ended December 31, 2011

No. (Note 1)	Company Name	Counter part	Relationship (Note 2)	Intercompany Transaction			
				Account	Amount	Terms	Percentage of total consolidated net sales or assets (Note 3)
0	TSRC Corporation	TSRC (Shanghai) Industries Ltd	1	Sales	55,675	The selling prices is not significantly different from those for other customers; the terms were two to three months.	0.10%
0	TSRC Corporation	TSRC (Shanghai) Industries Ltd	1	Accounts Receivable	17,454	"	0.05%
0	TSRC Corporation	TSRC(Nantong) Industries Ltd.	1	Sales	52,320	"	0.09%
0	TSRC Corporation	TSRC(Nantong) Industries Ltd.	1	Accounts Receivable	16,476	"	0.04%
0	TSRC Corporation	TSRC (Jinan) Industries Ltd.	1	Sales	40,348	"	0.07%
0	TSRC Corporation	TSRC (Jinan) Industries Ltd.	1	Accounts Receivable	13,391	"	0.03%
0	TSRC Corporation	Polybus Corporation Pte. Ltd.	1	Sales	55,565	"	0.10%
0	TSRC Corporation	Polybus Corporation Pte. Ltd.	1	Accounts Receivable	49,475	"	0.13%
0	TSRC Corporation	Trimurti Holding Corporation	1	Other Receivable	2,792	"	—
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC(Nantong) Industries Ltd.	3	Sales	253,566	"	0.46%
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC-UBE (Nantong) Chemical Industries Company. Ltd.	3	Sales	161,170	"	0.29%
4	Shen Hua Chemical Industrial Co., Ltd.	Polybus Corporation Pte. Ltd.	3	Sales	364,189	"	0.61%
4	Shen Hua Chemical Industrial Co., Ltd.	Polybus Corporation Pte. Ltd.	3	Accounts Receivable	4,447	"	0.01%
5	TSRC(Nantong) Industries Ltd.	TSRC (Shanghai) Industries Ltd	3	Sales	68,998	"	0.12%
5	TSRC(Nantong) Industries Ltd.	TSRC (Shanghai) Industries Ltd	3	Accounts Receivable	7,863	"	0.02%
5	TSRC(Nantong) Industries Ltd.	TSRC (Jinan) Industries Ltd.	3	Sales	26,783	"	0.05%
5	TSRC(Nantong) Industries Ltd.	TSRC (Jinan) Industries Ltd.	3	Accounts Receivable	9,300	"	0.02%
5	TSRC(Nantong) Industries Ltd.	Polybus Corporation Pte. Ltd.	3	Sales	960,967	"	1.73%
5	TSRC(Nantong) Industries Ltd.	Polybus Corporation Pte. Ltd.	3	Accounts Receivable	207,524	"	0.54%
6	TSRC-UBE (Nantong) Chemical Industries Company. Ltd.	Polybus Corporation Pte. Ltd.	3	Sales	2,953	"	—
1	TSRC (Shanghai) Industries Ltd	TSRC (Jinan) Industries Ltd.	3	Sales	6,762	"	0.01%
1	TSRC (Shanghai) Industries Ltd	TSRC (Jinan) Industries Ltd.	3	Accounts Receivable	8,098	"	0.02%
3	TSRC (Jinan) Industries Ltd.	TSRC (Shanghai) Industries Ltd	3	Sales	1,254	"	—
9	Dexco Polymers LP	TSRC (Lux.) Corporation S' a. r. L.	3	Sales	99,137	"	0.18%
9	Dexco Polymers LP	TSRC (Lux.) Corporation S' a. r. L.	3	Accounts Receivable	64,853	"	0.17%
1	TSRC (Shanghai) Industries Ltd	TSRC Corporation	2	Purchase	55,675	"	0.10%
1	TSRC (Shanghai) Industries Ltd	TSRC Corporation	2	Accounts Payable	17,545	"	0.03%
1	TSRC (Shanghai) Industries Ltd	TSRC (Jinan) Industries Ltd.	3	Purchase	1,254	"	—
1	TSRC (Shanghai) Industries Ltd	TSRC(Nantong) Industries Ltd.	3	Purchase	68,998	"	0.12%

No. (Note 1)	Company Name	Counter part	Relationship (Note 2)	Intercompany Transaction			
				Account	Amount	Terms	Percentage of total consolidated net sales or assets (Note 3)
1	TSRC (Shanghai) Industries Ltd	TSRC(Nantong) Industries Ltd.	3	Accounts Payable	7,863	The purchase cost is not significantly different from those for other customers; the terms were two to three months.	0.02%
3	TSRC (Jinan) Industries Ltd.	TSRC (Shanghai) Industries Ltd	3	Purchase	6,762	"	0.01%
3	TSRC (Jinan) Industries Ltd.	TSRC (Shanghai) Industries Ltd	3	Accounts Payable	8,098	"	0.02%
3	TSRC (Jinan) Industries Ltd.	TSRC Corporation	2	Purchase	40,348	"	0.07%
3	TSRC (Jinan) Industries Ltd.	TSRC Corporation	2	Accounts Payable	13,391	"	0.03%
3	TSRC (Jinan) Industries Ltd.	TSRC(Nantong) Industries Ltd.	3	Purchase	26,783	"	0.05%
3	TSRC (Jinan) Industries Ltd.	TSRC(Nantong) Industries Ltd.	3	Accounts Payable	9,300	"	0.02%
5	TSRC(Nantong) Industries Ltd.	TSRC Corporation	2	Purchase	52,320	"	0.09%
5	TSRC(Nantong) Industries Ltd.	TSRC Corporation	2	Accounts Payable	16,476	"	0.04%
5	TSRC(Nantong) Industries Ltd.	Shen Hua Chemical Industrial Co., Ltd.	2	Purchase	253,566	"	0.46%
6	TSRC-UBE (Nantong) Chemical Industries Company, Ltd.	Shen Hua Chemical Industrial Co., Ltd.	2	Purchase	161,170	"	0.29%
8	Polybus Corporation Pte Ltd.	TSRC Corporation	3	Purchase	55,565	"	0.10%
8	Polybus Corporation Pte Ltd.	TSRC Corporation	3	Accounts Payable	49,475	"	0.13%
8	Polybus Corporation Pte Ltd.	TSRC-UBE (Nantong) Chemical Industries Company, Ltd.	3	Purchase	2,953	"	0.01%
8	Polybus Corporation Pte Ltd.	Shen Hua Chemical Industrial Co., Ltd.	3	Purchase	364,189	"	0.61%
8	Polybus Corporation Pte Ltd.	Shen Hua Chemical Industrial Co., Ltd.	3	Accounts Payable	4,447	"	0.01%
8	Polybus Corporation Pte Ltd.	TSRC(Nantong) Industries Ltd.	3	Purchase	960,967	"	1.73%
8	Polybus Corporation Pte Ltd.	TSRC(Nantong) Industries Ltd.	3	Accounts Payable	207,524	"	0.54%
10	TSRC (Lux.) Corporation S' a. r. l.	Dexco Polymers LP.	3	Purchase	99,137	"	0.18%
10	TSRC (Lux.) Corporation S' a. r. l.	Dexco Polymers LP.	3	Accounts Payable	64,853	"	0.17%
0	TSRC Corporation	TSRC (Shanghai) Industries Ltd	1	Other income	5,238	"	0.01%
0	TSRC Corporation	TSRC (Shanghai) Industries Ltd	1	Other financial assets – current	4,434	"	0.01%
0	TSRC Corporation	TSRC (Jinan) Industries Ltd.	1	Other income	3,991	"	0.01%
0	TSRC Corporation	TSRC (Jinan) Industries Ltd.	1	Other financial assets – current	3,368	"	0.01%
0	TSRC Corporation	TSRC(Nantong) Industries Ltd.	1	Other income	12,289	"	0.02%
0	TSRC Corporation	TSRC(Nantong) Industries Ltd.	1	Other financial assets – current	7,917	"	0.01%
0	TSRC Corporation	TSRC-UBE (Nantong) Chemical Industries Company, Ltd.	1	Other income	22,551	"	0.04%
0	TSRC Corporation	TSRC-UBE (Nantong) Chemical Industries Company, Ltd.	1	Other financial assets – current	7,216	"	0.02%
0	TSRC Corporation	Shen Hua Chemical Industrial Co., Ltd.	1	Other income	43,832	"	0.08%
0	TSRC Corporation	Shen Hua Chemical Industrial Co., Ltd.	1	Other financial assets – current	32,472	"	0.08%

No. (Note 1)	Company Name	Counter part	Relationship (Note 2)	Intercompany Transaction			
				Account	Amount	Terms	Percentage of total consolidated net sales or assets (Note 3)
4	Shen Hua Chemical Industrial Co., Ltd.	Nantong Qix Storage Co., Ltd.	3	Other income	5,456	The transaction is not significantly different from those for other customers; the terms were two to three months.	0.01%
4	Shen Hua Chemical Industrial Co., Ltd.	Nantong Qix Storage Co., Ltd.	3	Other Receivable	576	"	—
0	Trimurti Holding Corporation	TSRC Corporation	2	Other Payable	2,792	"	0.01%
1	TSRC (Shanghai) Industries Ltd	TSRC Corporation	2	Operating expense	5,238	"	0.01%
1	TSRC (Shanghai) Industries Ltd	TSRC Corporation	2	Accrued expense	4,434	"	0.01%
1	TSRC (Shanghai) Industries Ltd	TSRC Corporation	2	Accrued expense	11,340	"	0.03%
3	TSRC (Jinan) Industries Ltd.	TSRC Corporation	2	Accrued expense	2,507	"	0.01%
3	TSRC (Jinan) Industries Ltd.	TSRC Corporation	2	Operating expense	3,991	"	0.01%
3	TSRC (Jinan) Industries Ltd.	TSRC Corporation	2	Accrued expense	3,368	"	0.01%
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC Corporation	2	Operating expense	43,832	"	0.08%
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC Corporation	2	Accrued expense	32,472	"	0.08%
5	TSRC(Nantong) Industries Ltd.	TSRC Corporation	2	Operating expense	12,289	"	0.02%
5	TSRC(Nantong) Industries Ltd.	TSRC Corporation	2	Accrued expense	7,917	"	0.02%
6	TSRC-UBE (Nantong) Chemical Industries Company, Ltd.	TSRC Corporation	2	Operating expense	22,551	"	0.04%
6	TSRC-UBE (Nantong) Chemical Industries Company, Ltd.	TSRC Corporation	2	Accrued expense	7,216	"	0.02%
0	TSRC Corporation	TSRC(Nantong) Industries Ltd.	1	—	757,250	—	(Note 4)
0	TSRC Corporation	TSRC-UBE (Nantong) Chemical Industries Company, Ltd.	1	—	666,380	—	(Note 4)
0	TSRC Corporation	TSRC (Jinan) Industries Ltd.	1	—	68,153	—	(Note 4)
0	TSRC Corporation	TSRC (USA) Investment Corporation	1	—	3,180,450	—	(Note 4)

(2) For the year ended December 31, 2010

No. (Note 1)	Company Name	Counter part	Relationship (Note 2)	Intercompany Transaction			
				Account	Amount	Terms	Percentage of total consolidated net sales or assets (Note 3)
0	TSRC Corporation	TSRC (Shanghai) Industries Ltd	1	Sales	32,419	The selling prices is not significantly different from those for other customers; the terms were two to three months.	0.09%
0	TSRC Corporation	TSRC (Shanghai) Industries Ltd	1	Accounts Receivable	4,800	"	0.02%
0	TSRC Corporation	TSRC(Nantong) Industries Ltd.	1	Sales	58,340	"	0.16%
0	TSRC Corporation	TSRC(Nantong) Industries Ltd.	1	Accounts Receivable	13,417	"	0.05%
0	TSRC Corporation	TSRC (Jinan) Industries Ltd.	1	Sales	23,799	"	0.06%
0	TSRC Corporation	TSRC (Jinan) Industries Ltd.	1	Accounts Receivable	5,595	"	0.02%
0	TSRC Corporation	TSRC-UBE (Nantong) Chemical Industries Company, Ltd.	1	Sales	180	"	—
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC(Nantong) Industries Ltd.	3	Sales	151,063	"	0.41%
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC-UBE (Nantong) Chemical Industries Company, Ltd.	3	Sales	69,166	"	0.19%

No. (Note 1)	Company Name	Counter part	Relationship (Note 2)	Intercompany Transaction			
				Account	Amount	Terms	Percentage of total consolidated net sales or assets (Note 3)
4	Shen Hua Chemical Industrial Co., Ltd.	Polybus Corporation Pte. Ltd.	3	Sales	45,522	"	0.12%
4	Shen Hua Chemical Industrial Co., Ltd.	Polybus Corporation Pte. Ltd.	3	Accounts Receivable	17,649	"	0.07%
5	TSRC(Nantong) Industries Ltd.	TSRC (Shanghai) Industries Ltd	3	Sales	119,107	"	0.32%
5	TSRC(Nantong) Industries Ltd.	TSRC (Shanghai) Industries Ltd	3	Accounts Receivable	19,906	The selling prices is not significantly different from those for other customers; the terms were two to three months.	0.08%
5	TSRC(Nantong) Industries Ltd.	TSRC (Jinan) Industries Ltd.	3	Sales	34,175	"	0.09%
5	TSRC(Nantong) Industries Ltd.	TSRC (Jinan) Industries Ltd.	3	Accounts Receivable	10,123	"	0.04%
1	TSRC (Shanghai) Industries Ltd	TSRC (Jinan) Industries Ltd.	3	Sales	12,537	"	0.03%
1	TSRC (Shanghai) Industries Ltd	TSRC (Jinan) Industries Ltd.	3	Accounts Receivable	3,434	"	0.01%
8	TSRC(Nantong) Industries Ltd.	Polybus Corporation Pte. Ltd.	3	Sales	337,357	"	0.92%
8	TSRC(Nantong) Industries Ltd.	Polybus Corporation Pte. Ltd.	3	Accounts Receivable	94,342	"	0.26%
1	TSRC (Shanghai) Industries Ltd	TSRC Corporation	2	Purchase	32,419	"	0.09%
1	TSRC (Shanghai) Industries Ltd	TSRC Corporation	2	Accounts Payable	4,800	"	0.02%
3	TSRC (Jinan) Industries Ltd.	TSRC (Shanghai) Industries Ltd	2	Purchase	12,537	"	0.03%
3	TSRC (Jinan) Industries Ltd.	TSRC (Shanghai) Industries Ltd	3	Accounts Payable	3,434	"	0.01%
3	TSRC (Jinan) Industries Ltd.	TSRC Corporation	2	Purchase	23,799	The selling prices is not significantly different from those for other customers; the terms were two to three months.	—
3	TSRC (Jinan) Industries Ltd.	TSRC Corporation	2	Accounts Payable	5,595	"	—
5	TSRC(Nantong) Industries Ltd.	TSRC Corporation	2	Purchase	58,340	"	0.16%
5	TSRC(Nantong) Industries Ltd.	TSRC Corporation	2	Accounts Payable	13,417	"	0.05%
5	Polybus Corporation Pte. Ltd.	TSRC(Nantong) Industries Ltd.	3	Purchase	337,357	"	0.92%
5	Polybus Corporation Pte. Ltd.	TSRC(Nantong) Industries Ltd.	3	Accounts Payable	94,342	"	0.26%
5	TSRC(Nantong) Industries Ltd.	Shen Hua Chemical Industrial Co., Ltd.	3	Purchase	151,063	"	0.41%
6	TSRC-UBE (Nantong) Chemical Industries Company, Ltd.	TSRC Corporation	2	Purchase	180	"	—
6	TSRC-UBE (Nantong) Chemical Industries Company, Ltd.	Shen Hua Chemical Industrial Co., Ltd.	3	Purchase	69,166	"	0.19%
8	Polybus Corporation Pte. Ltd.	Shen Hua Chemical Industrial Co., Ltd.	3	Purchase	45,522	"	0.12%
8	Polybus Corporation Pte. Ltd.	Shen Hua Chemical Industrial Co., Ltd.	3	Accounts Payable	17,649	"	0.07%
1	TSRC (Shanghai) Industries Ltd	TSRC(Nantong) Industries Ltd.	3	Purchase	119,107	"	0.32%
1	TSRC (Shanghai) Industries Ltd	TSRC(Nantong) Industries Ltd.	3	Accounts Payable	19,906	"	0.08%
3	TSRC (Jinan) Industries Ltd.	TSRC(Nantong) Industries Ltd.	3	Purchase	34,175	"	0.09%
3	TSRC (Jinan) Industries Ltd.	TSRC(Nantong) Industries Ltd.	3	Accounts Payable	10,123	"	0.04%
3	TSRC (Jinan) Industries Ltd.	TSRC (Shanghai) Industries Ltd	3	Purchase	12,537	"	0.03%
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC-UBE (Nantong) Chemical Industries Company, Ltd.	3	Other income	3,361	"	0.01%
4	TSRC(Nantong) Industries Ltd.	Shen Hua Chemical Industrial Co., Ltd.	3	Other income	3,354	"	0.01%



No. (Note 1)	Company Name	Counter part	Relationship (Note 2)	Intercompany Transaction			
				Account	Amount	Terms	Percentage of total consolidated net sales or assets (Note 3)
4	Shen Hua Chemical Industrial Co., Ltd.	Nantong Qix Storage Co., Ltd.	3	Other financial assets – current	555	"	–
4	Shen Hua Chemical Industrial Co., Ltd.	Nantong Qix Storage Co., Ltd.	3	Other income	5,527	The selling prices are not significantly different from those for other customers; the terms were two to three months.	0.02%
4	Shen Hua Chemical Industrial Co., Ltd.	Polybus Corporation Pte. Ltd.	1	Operating expense	2,482	"	0.01%
7	Nantong Qix Storage Co., Ltd.	Shen Hua Chemical Industrial Co., Ltd.	3	Cost of sales	5,527	"	0.02%
5	TSRC(Nantong) Industries Ltd.	TSRC-UBE (Nantong) Chemical Industries Company, Ltd.	3	Other income	11,899	"	0.03%
5	TSRC(Nantong) Industries Ltd.	TSRC-UBE (Nantong) Chemical Industries Company, Ltd.	3	Other financial assets – current	21,021	"	0.08%
5	Shen Hua Chemical Industrial Co., Ltd.	TSRC(Nantong) Industries Ltd.	3	Accrued expense	3,354	"	0.01%
6	TSRC-UBE (Nantong) Chemical Industries Company, Ltd.	Shen Hua Chemical Industrial Co., Ltd.	3	Accrued expense	3,361	"	0.01%
6	TSRC-UBE (Nantong) Chemical Industries Company, Ltd.	TSRC(Nantong) Industries Ltd.	3	Cost of sales	11,899	"	0.03%
6	TSRC-UBE (Nantong) Chemical Industries Company, Ltd.	TSRC(Nantong) Industries Ltd.	3	Accrued expense	21,021	"	0.08%
7	Nantong Qix Storage Co., Ltd.	Shen Hua Chemical Industrial Co., Ltd.	3	Accrued expense	555	"	–
8	Polybus Corporation Pte. Ltd.	Shen Hua Chemical Industrial Co., Ltd.	1	Other income	2,482	"	0.01%
0	TSRC Corporation	TSRC (Shanghai) Industries Ltd	1	Other income	6,134	"	0.02%
0	TSRC Corporation	TSRC (Shanghai) Industries Ltd	1	Other financial assets – current	4,585	"	0.02%
0	TSRC Corporation	TSRC (Jinan) Industries Ltd.	1	Other income	4,182	"	0.01%
0	TSRC Corporation	TSRC (Jinan) Industries Ltd.	1	Other financial assets – current	3,144	"	0.01%
0	TSRC Corporation	TSRC(Nantong) Industries Ltd.	1	Other income	10,273	"	0.03%
0	TSRC Corporation	TSRC(Nantong) Industries Ltd.	1	Other financial assets – current	8,083	"	0.03%
0	TSRC Corporation	TSRC-UBE (Nantong) Chemical Industries Company, Ltd.	1	Other income	15,921	"	0.04%
0	TSRC Corporation	TSRC-UBE (Nantong) Chemical Industries Company, Ltd.	1	Other financial assets – current	11,016	"	0.04%
0	TSRC Corporation	Shen Hua Chemical Industrial Co., Ltd.	1	Other income	26,499	"	0.07%
0	TSRC Corporation	Shen Hua Chemical Industrial Co., Ltd.	1	Other financial assets – current	22,500	"	0.09%
1	TSRC (Shanghai) Industries Ltd	TSRC Corporation	2	Operating expense	6,134	"	0.02%
1	TSRC (Shanghai) Industries Ltd	TSRC Corporation	2	Accrued expense	4,585	"	0.02%
3	TSRC (Jinan) Industries Ltd.	TSRC Corporation	2	Operating expense	4,182	"	0.01%
3	TSRC (Jinan) Industries Ltd.	TSRC Corporation	2	Accrued expense	3,144	"	0.01%
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC Corporation	2	Operating expense	26,499	"	0.07%
4	Shen Hua Chemical Industrial Co., Ltd.	TSRC Corporation	2	Accrued expense	22,500	"	0.09%
5	TSRC(Nantong) Industries Ltd.	TSRC Corporation	2	Operating expense	10,273	"	0.03%
5	TSRC(Nantong) Industries Ltd.	TSRC Corporation	2	Accrued expense	8,083	"	0.03%
6	TSRC-UBE (Nantong) Chemical Industries Company, Ltd.	TSRC Corporation	2	Operating expense	15,921	"	0.04%



No. (Note 1)	Company Name	Counter part	Relationship (Note 2)	Intercompany Transaction			
				Account	Amount	Terms	Percentage of total consolidated net sales or assets (Note 3)
6	TSRC-UBE (Nantong) Chemical Industries Company, Ltd.	TSRC Corporation	2	Accrued expense	11,016	"	0.04%
0	TSRC Corporation	TSRC(Nantong) Industries Ltd.	1	—	728,250	—	(Note 4)
0	TSRC Corporation	TSRC-UBE (Nantong) Chemical Industries Company, Ltd.	1	—	640,860	"	(Note 4)
0	TSRC Corporation	TSRC (Jinan) Industries Ltd.	1	—	65,543	—	(Note 4)

Note 1: Company numbering is as follow:

1. Parent company-0
2. Subsidiary starts from 1

Note 2: Relationship with transaction party numbering is as follows:

1. Parent company to subsidiary-1
2. Subsidiary to parent company-2
3. Subsidiary to subsidiary-3

Note 3: For balance sheet items, the percentage of total consolidated assets/liabilities is determined based on the ending balance of balance sheet items divided by total consolidated assets. For profit or loss items, the percentage of net or loss items divided by total consolidated income/loss

Note 4: TSRC's guarantees for bank loans of investees.

## 12. Segment Information

There are three service departments which should be reported as follows:

Synthetic rubber services department, Non-synthetic rubber services department, and others. The synthetic rubber services department produces and sells of synthetic rubber products. Non-synthetic rubber services department produces and sells of reengineering plastic and plastic elasticity engineering products. Other services department provides storage service.

### (a) Segment information and adjustments:

	2011				
	Synthetic rubber services department	Non-synthetic rubber services department	Others	Adjustments	Total
Revenue					
Revenue from external customers	\$ 54,258,564	764,311	52,443	—	55,075,318
Revenue from inter-department	2,037,744	104,074	—	(2,141,818)	—
Interest income	65,398	739	2,019	—	68,156
Total Revenue	<u>\$ 56,361,706</u>	<u>869,124</u>	<u>54,462</u>	<u>(2,141,818)</u>	<u>55,143,474</u>
Interest expense	<u>\$ 202,754</u>	<u>3,040</u>	<u>—</u>	<u>—</u>	<u>205,794</u>
Depreciation and Amortization	<u>\$ 746,557</u>	<u>63,347</u>	<u>28,917</u>	<u>(16,541)</u>	<u>822,280</u>
Net investment income	<u>\$ 3,481,592</u>	<u>—</u>	<u>43,659</u>	<u>(3,498,975)</u>	<u>26,276</u>
Profit/Loss	<u>\$ 13,869,929</u>	<u>(9,081)</u>	<u>125,202</u>	<u>(3,547,204)</u>	<u>10,438,846</u>
Long-term investments accounted for by equity method	<u>\$ 10,033,423</u>	<u>—</u>	<u>484,520</u>	<u>(9,512,475)</u>	<u>1,005,468</u>
Capital expenditure of non-current asset	<u>\$ 13,824,935</u>	<u>205,362</u>	<u>162,625</u>	<u>(86,506)</u>	<u>14,106,416</u>
Total assets	<u>\$ 43,238,514</u>	<u>1,013,133</u>	<u>4,350,383</u>	<u>(10,059,456)</u>	<u>38,542,574</u>
Total liability	<u>\$ 18,751,367</u>	<u>410,998</u>	<u>63,213</u>	<u>(1,375,938)</u>	<u>17,849,640</u>

	2010				
	Synthetic rubber services department	Non-synthetic rubber services department	Others	Adjustments	Total
Revenue					
Revenue from external customers	\$ 35,646,393	973,914	65,401	—	36,685,708
Revenue from inter-department	815,117	69,722	—	(884,839)	—
Interest income	15,679	1,952	—	—	17,631
Total Revenue	<u>\$ 36,477,189</u>	<u>1,045,588</u>	<u>65,401</u>	<u>(884,839)</u>	<u>36,703,339</u>
Interest expense	<u>\$ 161,400</u>	<u>3,005</u>	<u>—</u>	<u>—</u>	<u>164,405</u>
Depreciation and Amortization	<u>\$ 714,651</u>	<u>41,679</u>	<u>33,303</u>	<u>(16,541)</u>	<u>773,092</u>
Net investment income	<u>\$ 1,708,366</u>	<u>—</u>	<u>111,402</u>	<u>(1,768,804)</u>	<u>50,964</u>
Profit/Loss	<u>\$ 6,661,917</u>	<u>74,505</u>	<u>259,294</u>	<u>(1,740,900)</u>	<u>5,254,816</u>
Long-term investments accounted for by equity method	<u>\$ 5,986,390</u>	<u>—</u>	<u>433,643</u>	<u>(5,847,963)</u>	<u>572,070</u>
Capital expenditure of non-current asset	<u>\$ 9,148,327</u>	<u>180,987</u>	<u>206,393</u>	<u>(103,047)</u>	<u>9,432,660</u>
Total assets	<u>\$ 37,507,862</u>	<u>1,151,617</u>	<u>616,583</u>	<u>(14,193,764)</u>	<u>25,082,298</u>
Total liability	<u>\$ 9,808,207</u>	<u>356,524</u>	<u>53,497</u>	<u>(303,846)</u>	<u>9,914,382</u>

**(b)Geography information**

Sales from external customers:

Areas	2011	2010
Asia	\$ 45,762,858	33,190,180
Others	9,312,460	3,495,528
Total	<u>\$ 55,075,318</u>	<u>36,685,708</u>

Non-current asset:

Areas	2011	2010
Asia	\$ 10,566,069	9,432,660
Others	3,540,347	—
Total	<u>\$ 14,106,416</u>	<u>9,432,660</u>

**(c)In 2011 and 2010, TSRC group had no major customer who constituted 10% or more of the net sales, and therefore it is not necessary to disclose information about significant customers.**

**6.Any financial difficulty experienced by the company or its affiliates, and the effect brought by the difficulty upon the company's financial situation - None.**

**Review and analysis of the company's  
financial condition and business  
performance, and risk management**

## Review and analysis of the company's financial condition and business performance, and risk management

### I. Financial condition:

Unit: NT\$1,000

Fiscal year Item	2011	2010	Variation	
			Amount	%
Current assets	6,970,348	5,640,790	1,329,558	23.57%
Long-term investment	11,605,591	7,650,768	3,954,823	51.69%
Fixed assets	2,087,607	1,753,248	334,359	19.07%
Other assets	1,972,507	1,950,326	22,181	1.14%
Total assets	22,636,053	16,995,132	5,640,921	33.19%
Current liabilities	3,955,914	2,981,578	974,336	32.68%
Long-term liabilities	0	100,000	(100,000)	-100.00%
Other liabilities	1,512,689	954,884	557,805	58.42%
Total liabilities	5,468,603	4,036,462	1,432,141	35.48%
Capital stock	7,149,004	6,499,095	649,909	10.00%
Capital Surplus	69,003	69,003	0	0.00%
Retained earnings	8,984,752	6,167,579	2,817,173	45.68%
Total shareholders' equity	17,167,450	12,958,670	4,208,780	32.48%

Notes to changes exceeding 20% of the ratio and amounted over NT\$10 million:

1. The increase of liquid assets mainly came from the increase of raw material prices compared to the same period last year. The sale price of inventory also went up accordingly, leading to the increase in both accounts receivable and inventory compared to the previous period.
2. The increase in long-term investment mainly came from the increase of profitability by the subsidiary compared to the same period last year, as well as the new shareholding in Dexco Polymers L.P., an indirect subsidiary.
3. The increase in current liabilities is a result of an increase in payable accounts, the increase in short-term loans to meet operating turnover, and increase in payable employee expenses resulting from an increase in price of raw materials.
4. The decrease in long-term liabilities was mainly the retirement of loans as agreed and the recognition of the current portion of long-term debts as current liabilities.
5. The increase of other debt mainly came from the provision made for deferred income tax debt due to a temporary difference in tax imposition for overseas investment profit.
6. For the increase of retained earnings, please refer to the "Analysis and Comparison of Business Performance".

## II. Business performance:

### (1) Analysis and Comparison of business performance

Unit: NT\$1,000

Fiscal year Item	2011	2010	Amount change	Percentage change (%)
Total operating revenue	20,629,837	15,269,430	5,360,407	35.11%
Less: Return of sales	4,173	4,977	(804)	-16.15%
Discount of sales	13,506	214	13,292	6211.21%
Net operating revenue	20,612,158	15,264,239	5,347,919	35.04%
Cost of operation	16,093,130	12,632,630	3,460,500	27.39%
Gross profit	4,519,028	2,631,609	1,887,419	71.72%
Operating expenses	1,187,211	884,188	303,023	34.27%
Business profit	3,331,817	1,747,421	1,584,396	90.67%
Non-operating income	3,892,623	2,174,943	1,717,680	78.98%
Non-operating expenses and loss	189,139	137,725	51,414	37.33%
Net profit before tax	7,035,301	3,784,639	3,250,662	85.89%
Less: income tax expenses	1,288,622	505,477	783,145	154.93%
Cumulative effect of changes in accounting principles	4,914	0	4,914	N/A
Net profit of the current period	5,741,765	3,279,162	2,462,603	75.10%

Notes to changes:

1. For analysis of the change in gross profit, please refer to the "Analysis of the change in gross profit" .
2. The increase in operating expenses is a result of an increase in employee expenses resulting from increase in the number of employees and net profit after income tax, increase in sale cost resulting from growth of turnover.
3. The increase of non-operating income and profit mainly came from the increase of investment income and dividend income recognized under the equity method.
4. The increase of non-operating costs and losses mainly came from increased cost of management and technical services.

Expected sales volume and the projection standards

Unit: ton

Name of product	2012	
	Expected sales volume	Projection standard
SBR、BR、TPE	198,983	Subject to the requirement of the market and customers
TPR	2,400	Subject to the requirement of the market and customers Forecast growth
Total	201,383	

**(2) Analysis of the change in gross profit**

Unit: NT\$1,000

Product	Change	Causes for changes			
		Difference in selling price	Difference in cost price	Difference in sale portfolio	Difference in quantity
Rubber products	1,909,400	5,782,500	(3,794,649)	(11,354)	(67,097)
Others	(21,981)				
Total	1,887,419				

Explanation: The increase in gross profit this year over last year is a result of an increase in the selling price more than that in the cost of raw materials.

**III. Cash flow:**

Unit: NT\$1,000

Cash balance at the beginning	Net cash flow from operating activities of the year	Cash inflow (outflow) of the year	Remainder (deficit) of cash	Remedy for insufficient cash	
				Investment plan	Financial plan
1,504,221	2,373,950	(2,445,217)	1,432,954	—	—

**(1) Analysis of change in cash flow in the current year:**

- Operating activities: Mainly generated from the cash inflow of the income generated from operating activities at NT\$3,107,867,000 of assets, liabilities Net cash outflow arising from changes in NT\$733,917,000.
- Investing activities: The net cash inflow from investing activities amounting to NT\$345,090 thousand was mainly due to an increase in available-for-sale financial assets, NT\$ 83,761 thousand, purchase and construction of fixed assets, NT\$581,806 thousand, and collection of long-term investment under the equity method, NT\$144,000 thousand.
- Financing activities: Net cash flow from finances amounting to NT\$2,100,127,000 was mainly due to the increase short-term loans amounting to NT\$180,277,000, the decrease in long-term loans amounting to NT\$250,000,000 and the payout of cash dividends amounting to NT\$2,274,067,000.

**(2) Remedy for insufficient cash and analysis on volume: None****(3) Analysis of cash flow in the following year:**

Unit: NT\$1,000

Cash balance at the beginning(1)	Projected cash flow from operation of the year (2)	Projected cash outflow of the year(3)	Projected remainder (deficit) of cash (1)+(2)-(3)	Remedy for insufficient cash	
				Investment plan	Financial plan
1,432,954	1,541,000	(2,112,000)	861,954	—	—

**IV. Effect upon financial operations of any major capital expenditure: 2010 year not significant capital outlay plan****V. The company's reinvestment policy, the main reasons for profit/loss generated thereby the plan for improving re-investment profitability, and investment plans for the following year:**

Due to the economic recovery in 2010, the auto industry was booming in Mainland China. Given the climate, the supply of natural rubber declined. The demand for synthetic rubber was intensive in the market and, therefore, the selling price could be reflected simultaneously to increase the profit. In order to maintain the leadership in the synthetic rubber industry, the Company extended its investment policy to output of the general-purpose rubber. For example, the Company worked with Lanxess of Germany to reach the agreement to acquire Dexco of USA. The development of high profit margins and added-value special grade rubber to maintain the overall performance of the Company.

**VI. Analysis and assessment of risk management****(1) The effect of interest rate and exchange rate fluctuation and inflation on the profit of the company and the countermeasures**

Interest rate: 71% of the balance of the Company's loan was a loan at USD. The US dollar funding interest rate in 2011 is slightly higher than that in 2010. The net expenses 2011 were NT\$12,344 thousand, i.e. 0.06% of the yearly operating revenue, which produced no material effect to the Company's operation. The Company will continue evaluating the income and expenditure of cash in the future manage the cash position and save interest expenses.

Exchange rate: In 2011, the major exposure of the Company in foreign currency was USD. As usual, the Company adopted the policy of offsetting the positions of receivables and payables in management, and used forward contracts in derivative trade to control possible effects from exchange rate fluctuation. In 2011, the Company had exchange interest amounting to NT\$40,167,000. In the future, the Company will continue to manage its net exposure position and take necessary measures for hedging in line with the fluctuation of exchange rates.

Inflation: The Executive Yuan Office of Budgeting, Accounting and Statistics announced that the CPI annual increase rate in Taiwan was 2.03% in 2011. Given the increase in the cost of raw materials and intensive demand from down-stream suppliers, the increase in the cost may be transferred upon. Therefore, this posed no threat to the operation and profits of the Company.

**(2) Policy on high risk and high leverage investments, loans to a third party, guarantee and endorsement and derivative trade, and the main cause for profit or loss, and countermeasures**

The undertaking of high-risk and high-leverage activities and lending to a third party: The Company only acts in favor of investees appraised under the equity method in guarantees and endorsements, and engaged in derivative trade only for the control of exchange rate fluctuation through hedging as dictated by business needs. The Company will handle the said trades according to the existing "Procedure for asset acquisition and disposition", "Procedure for granting loan to others" and "Procedure for making endorsement/guarantee".

**(3) R&D spending in the future**

Unit: NT\$

Project name	Expected R&D spending
High Performance SSBR Development for Green Tire	30,000,000
Consolidate high-level Dexco manufacturing process technology	20,000,000
Develop green, new-model, environment-friendly rubber materials.	30,000,000

**(4) Major change in government policies and laws domestically and overseas. The effect on the financial position and operation of the company, and countermeasures**

The company has always complied with government's laws and regulations and monitored the change in government policies and laws domestically and overseas. The change in government policies and laws in the country and overseas in the recent year did not cause any effect to the company's finance and operations.

**(5) The effect of the changes in technologies and industry on the financial position and operation of the company, and countermeasures: No**

**(6) The effect of change in corporate image on corporate crisis management and countermeasures:**

The Company adheres to the value highlighting honesty and integrity, reward for innovation and teamwork, namely, "take social responsibility and continue innovation and development", "cherish resources on the earth and enhance welfare for humans", "fulfill business performance and become leading enterprise". Meanwhile, the Company is dedicated to providing high value-added products and systematic resolutions through the production process respecting environmental protection and, therefore, becomes the first priority of high polymer material suppliers. The Company will work with customers to create the competitive strength and complete the mission successfully. The Company's corporate identity highlighting the creation of fine-quality life for the social public remains unchanged. Also, no corporate risk took place in the Company.

**(7) Expected benefits from mergers and acquisitions, possible risk, and countermeasures: No**

**(8) Expected benefits from capacity and plant expansion, possible risk, and countermeasures: No**

**(9) Risk deriving from over concentration of purchase or sales:**

Purchase: Capacity of the suppliers of butadiene, the company's major raw material, is limited. In order to stabilize the source of raw materials and in consideration of the acquisition cost, the company entered into the supply contract with the domestic major suppliers to concentrate the supply. If the domestic suppliers suffer force majeure, the company still can acquire the raw material from foreign suppliers. Therefore, there is no likelihood of short supply of the raw materials.

Sales: The company's major customers are domestic and foreign tire suppliers. The company's financial structure is well-established, and the sales department will control the credit line of customers. The credit investigation on customers is conducted on an on-going basis. There are not likely to have credit risk.

**(10) The effect and risk from massive transfer of equity by or replacement of directors, supervisors or shareholders holdings more than 10% of the capital stock, and countermeasures: No**

**(11) The effect and the risk deriving from the change in management on the company, and countermeasures: No**

**(12) Litigious and non-litigious matters between the Company and the Company's directors, supervisors, presidents, responsible persons and top ten shareholders with more than 10% shareholding, and subsidiaries: No**

**(13) Other major risk and countermeasures: No**

**VII. Others important matters: No**

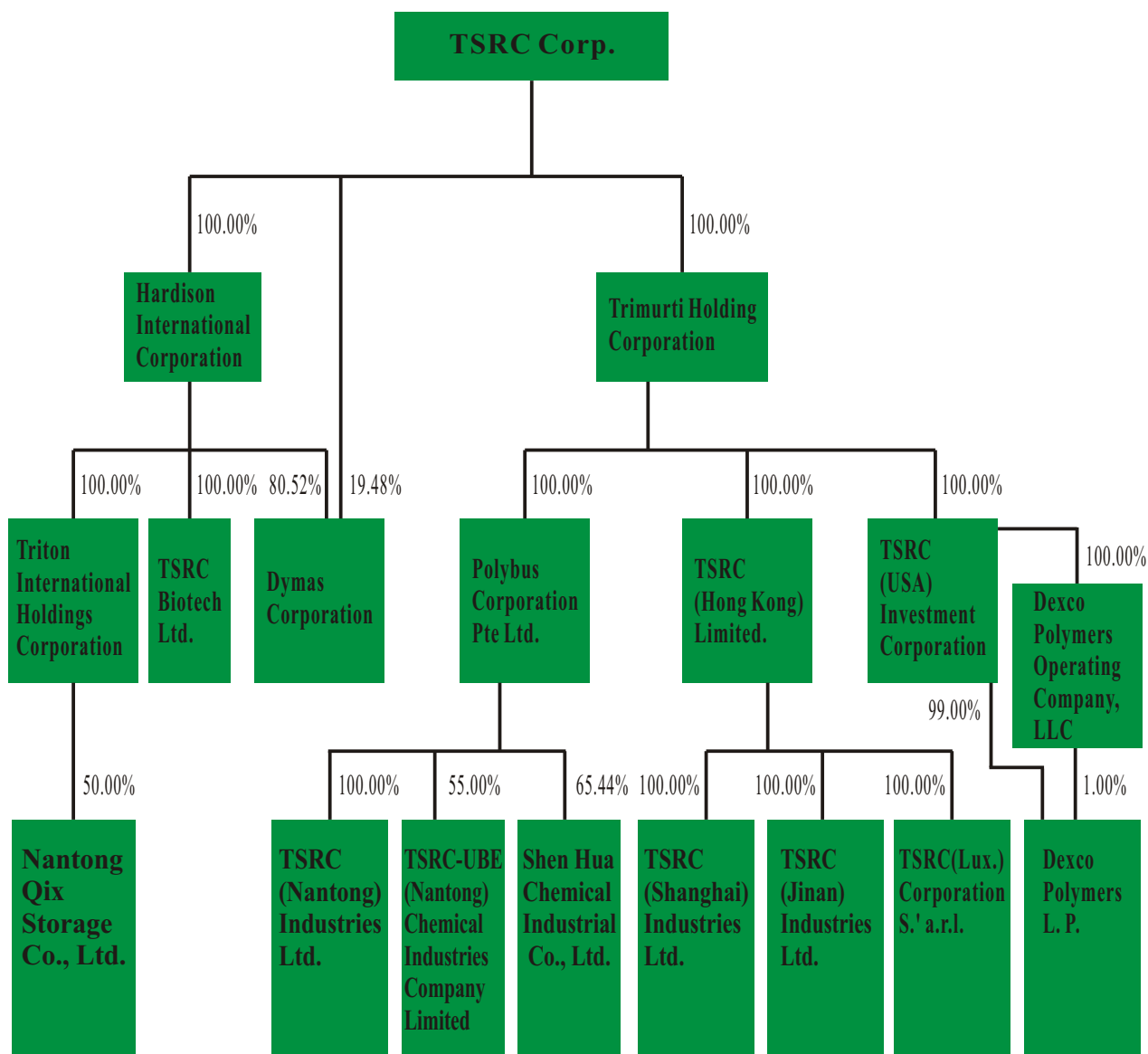
## **Special Notices**



## Special Notices

### I. Information about the company's affiliates

#### (1) Organizational chart of affiliates



## (2) Profiles of company's affiliates

Name of enterprise	Date of establishment	Address	Paid-in capital	Principal business
Trimurti Holding Corporation	1994.03.10	Palm Grove, House, P.O. Box 438, Road Town, Tortola, B.VI.	USD86,920,000	Investment Corporation
Hardison International Corporation	1994.03.11	Palm Grove, House, P.O. Box 438, Road Town, Tortola, B.VI.	USD4,419,000	Investment Corporation
Dymas Corporation	1991.03.19	Palm Grove, House, P.O. Box 438, Road Town, Tortola, B.VI.	USD6,609,000	Investment Corporation
Polybus Corporation Pte. Ltd.	1995.02.25	9 Temasek Boulevard, 31F Suntec Tower Two, Singapore(038989)	SGD105,830,000	International commerce and trading
TSRC (Hong Kong) Limited.	2008.03.19	Suite 2303 23F Great Eagle Centre 23 Harbour Road Wanchai HK	USD7,800,000	Investment Corporation
Triton International Holdings Corporation	1993.05.24	Palm Grove House P.O. Box 438, Road Town, Tortola, B.VI.	USD50,000	Investment Corporation
TSRC Biotech Ltd.	1997.08.07	4 <sup>th</sup> Fl., Harbour Centre P.O. BOX613, George Town, Grand Cayman	USD3,020,000	Investment Corporation
TSRC (Lux.) Corporation S. a. r. l.	2011.07.26	37, rued' Anvers, L 1130 Luxembourg	USD800,000	International commerce and trading
TSRC (USA) Investment Corporation	2011.01.27	2711 Centerville Road, Suite 400, Country of New Castle, Wilmington, Delaware 19808	USD70,050,000	Investment Corporation
Dexco Polymers L. P.	2002.02.02	12012 Wickchester Lane, Suite 280, Houston, TX 77079	Note	Production and sale of synthetic rubber products
TSRC (Shanghai) Industries Ltd.	2001.02.22	No. 1406, Yu Shu Road, Hi-tech Park Songjiang Zone, Shanghai, P.R.C.	USD5,500,000	Production and sale of compounding materials
TSRC (Jinan) Industries Ltd.	2006.09.15	No. 666 LinGang St., Yao Qiang Town, Li Cheng Zone, Jinan City, Shan Dong, PRC.	USD2,250,000	Production and sale of compounding materials
Shen Hua Chemical Industrial Co., Ltd.	1996.03.29	NO.1 Shen Hua Road, Nantong Economic & Technology Development Area, Nantong Jiangsu, P.R.C.	USD41,220,000	Production and sale of SBR
TSRC (Nantong) Industries Ltd.	2006.09.05	No. 22 Tong Wang Road, Nantong Economic & Technological Development Area, Nantong Jiangsu, P.R.C.	USD43,885,000	Production and sale of SEBS
TSRC-UBE (Nantong) Chemical Industries Company Limited	2006.12.06	No. 22 Tong Wang Road, Nantong Economic & Technological Development Area, Nantong Jiangsu, P.R.C.	USD40,000,000	Production and sale of BR
Nantong Qix Storage Co., Ltd.	2004.04.28	No. 111 He Xing Road, Nantong Economic & Technological Development Area, Nantong, Jiangsu, P.R.C.	USD3,000,000	Chemical storage management

Note: the TSRC (USA) Investment Corporation is a limited liability shareholder of the Dexco Polymers Operating Company LLC (Dexco LLC). In addition to its 99% investment in Dexco Polymers L.P., it also has a 1% indirect investment through Dexco LLC in Dexco Polymers L.P. Dexco LLC is not an operating company. Thus, no information related to Dexco LLC is further disclosed.

## (3) Ruled as holdings by the same shareholders of the subsidiaries: No

**(4)The business covered by all group enterprises and breakdown thereof:**

Name of enterprise	Business covered	Affiliation with business	Breakdown
Trimurti Trading Corporation	General investment, reinvestment in Polybus Corporation Pte Ltd. and TSRC (Hong Kong) Limited and TSRC (USA) Investment Corporation	No	Recognized as the company's offshore investee
Hardison International Corporation	General investment, reinvestment in Dymas Corporation · Triton International Holdings Corporation and TSRC Biotech Ltd.	No	Recognized as the company's offshore investee
Dymas Corporation	General investment	No	Recognized as the company's offshore investee
Polybus Corporation Pte. Ltd.	International trading and general investment, reinvestment in Shen Hua Chemical Industrial, TSRC (Nantong) Industries Ltd. and TSRC-UBE (Nantong) Chemical Industries Company Limited	Yes	This company is an overseas subsidiary of the Company, responsible for certain sales activities of the Company and certain sales activities of TSRC (Nantong) Industries Ltd. and Shen Hua Chemical Industrial Co., Ltd.
TSRC (Hong Kong) Limited.	General investment, reinvestment in TSRC (Shanghai) Industries Ltd. and TSRC (Jinan) Industries Ltd. And TSRC(Lux.) Corporation S.' a. r. L.	No	Recognized as the company's offshore investee
Triton International Holdings Corporation	International trading, reinvestment in Nantong Qix Storage Co., Ltd. In Nantong	No	Recognized as the company's offshore investee
TSRC Biotech Ltd.	General investment	No	Recognized as the company's offshore investee
TSRC (Lux.) Corporation S.' a. r. l.	International commerce and trading	Yes	This company is an overseas subsidiary of the Company and is responsible for certain sales activities of Dexco Polymers L.P.
TSRC (USA) Investment Corporation	General investment, reinvestment in Dexco Polymers L. P. and Dexco Polymers Operating Company, LLC	No	Recognized as the company's offshore investee
Dexco Polymers L. P.	Production and sale of synthetic rubber products.	No	Recognized as the company's offshore investee
TSRC (Shanghai) Industries Ltd.	Production and sale of compounding materials	Yes	This organization is an overseas subsidiary of the Company. The Company sells certain products and provides management and technical services to this organization.
TSRC (Jinan) Industries Ltd.	Production and sale of compounding materials	Yes	The company's offshore investee, to which the company sells a part of formula to this company in management and technology services
Shen Hua Chemical Industrial Co., Ltd.	Production and sale of SBR	Yes	This organization is an overseas subsidiary of the Company. The Company provides technical services to this organization.
TSRC (Nantong) Industries Ltd.	Production and sale of SEBS	Yes	Recognized as the company's offshore investee; The Company sold a part of the products and provided the management and technical service together with TSRC (Nantong) Chemical Industries Company Limited.
TSRC-UBE (Nantong) Chemical Industries Company Limited	Production and sale of BR	Yes	This organization is an overseas subsidiary of the Company. The Company provides management and technical services to this organization.
Nantong Qix Storage Co., Ltd.	Chemical storage management	No	Recognized as the company's offshore investee

**(5) Profiles of Directors, Supervisors and Presidents of the company's affiliates:**

Name of enterprise	Job title	Name of representative	Shares held	
			Share(s)	Shareholding
Trimurti Holding Corporation	Director	Wei-Hua Tu	–	–
	Director	George Kiang	–	–
	Director	John Chen	–	–
Hardison International Corporation	Director	George Kiang	–	–
	Director	Wei-Hua Tu	–	–
Dymas Corporation	Director	George Kiang	–	–
	Director	Wei-Hua Tu	–	–
Polybus Corporation Pte. Ltd.	Director	Wei-Hua Tu	–	–
	Director	George Kiang	–	–
	Director	John Chen	–	–
TSRC (Hong Kong) Limited.	Director	Wei-Hua Tu	–	–
	Director	George Kiang	–	–
	Director	John Chen	–	–
TSRC (USA) Investment Corporation	Chairman	Otto Cheng	–	–
	Director	Danny Lee	–	–
	Director	Liang Chang	–	–
	Director	Wei-Hua Tu	–	–
	President	Wei-Hua Tu	–	–
TSRC (Lux.) Corporation S.' a. r. l.	Director	Wei-Hua Tu	–	–
	Director	George Kiang	–	–
	Director	John Chen	–	–
	Director	Christopher J. Mudd	–	–
	President	Juergen Schneider	–	–
Triton International Holdings Corporation	Director	Wei-Hua Tu	–	–
	Director	John Chen	–	–
TSRC Biotech Ltd.	Director	Wei-Hua Tu	–	–
	Director	George Kiang	–	–
TSRC (Shanghai) Industries Ltd.	Chairman	Wei-Hua Tu	–	–
	Director	Kuo Huang-Cheng	–	–
	Director	George Kiang	–	–
	Supervisor	John Chen	–	–
	President	Kuo Huang-Cheng	–	–
TSRC (Jinan) Industries Ltd.	Chairman	Wei-Hua Tu	–	–
	Director	Kuo Huang-Cheng	–	–
	Director	George Kiang	–	–
	Supervisor	John Chen	–	–
	President	Sean Cheng	–	–
Shen Hua Chemical Industrial Co., Ltd.	Chairman	Wei-Hua Tu	–	–
	Director	John Chen	–	–
	Director	Gino C. Y. Chen	–	–
	Director	George Kiang	–	–
	Director	Chin-Chang Ting	–	–
	Director	Lu Qiang Xin	–	–
	Director	Jiro Takatani	–	–
	President	Jiang Chao Yang	–	–
TSRC (Nantong) Industries Ltd.	Chairman	Wei-Hua Tu	–	–
	Director	George Kiang	–	–
	Director	Gino C. Y. Chen	–	–
	Supervisor	John Chen	–	–
	President	Chin-Bao Lu	–	–

Name of enterprise	Job title	Name of representative	Shares held	
			Share(s)	Shareholding
TSRC-UBE (Nantong) Chemical Industries Company Limited	Chairman	Wei-Hua Tu	–	–
	Director	Gino C. Y. Chen	–	–
	Director	John Chen	–	–
	Director	Hideyuki Sugishita	–	–
	Director	Jiro Takatani	–	–
	Supervisor	Yoshihiro (Harry) Hirahara	–	–
	President	Jim Chien	–	–
Nantong Qix Storage Co., Ltd.	Chairman	Wei-Hua Tu	–	–
	Director	Chin-Chang Ting	–	–
	Director	Luo Delong	–	–
	Director	Ben Xuebing	–	–

**(6) Operation in Review of Affiliated Enterprises**

Unit: NT\$1,000

Name of enterprise	Capital	Total assets	Total liabilities	Net worth	Operating revenue	Operating income (loss)	Gain/loss current period (after tax)	EPS after tax (NTD)
Trimurti Holding Corporation	2,629,126	12,901,208	2,849,160	10,052,048	0	-62,478	3,478,833	40.02
Hardison International Corporation	133,861	410,700	0	410,700	0	-55	36,108	8.17
Dymas Corporation	200,204	378,953	0	378,953	0	-79	38,761	5.86
Polybus Corporation Pte. Ltd.	2,180,880	9,300,435	583,681	8,716,754	1,598,853	27,604	3,324,714	31.42
TSRC (Hong Kong) Limited.	236,262	282,334	427	281,907	0	-504	6,027	0.77
Triton International Holdings Corporation	1,515	101,261	0	101,261	0	-26	4,132	82.64
TSRC Biotech Ltd.	91,482	30	0	30	0	-168	-168	-0.06
TSRC (Lux.) Corporation S. a. r. l.	31,192	90,802	71,646	19,156	107,442	-12,697	-12,567	-15.71
TSRC (USA) Investment Corporation	2,121,815	6,060,708	3,729,717	2,330,991	0	20,682	203,499	-
Dexco Polymers L. P.	0	3,141,658	575,142	2,566,516	3,965,621	498,232	482,458	-
TSRC (Shanghai) Industries Ltd.	166,595	331,823	81,166	250,657	419,369	11,228	8,831	-
TSRC (Jinan) Industries Ltd.	68,153	136,983	167,679	-30,696	192,513	9,607	10,162	-
Shen Hua Chemical Industrial Co., Ltd.	1,248,554	8,566,435	2,168,181	6,398,254	20,304,405	4,712,137	3,647,159	-
TSRC (Nantong) Industries Ltd.	1,329,277	3,918,789	1,831,550	2,087,239	2,609,653	533,551	452,241	-
TSRC-UBE (Nantong) Chemical Industries Company Limited	1,211,600	4,367,438	1,640,749	2,726,689	7,354,682	1,172,869	1,055,278	-
Nantong Qix Storage Co., Ltd.	90,870	241,289	57,861	183,428	52,443	9,351	8,265	-

(Note) Spot exchange rate on the balance sheet date under the title of assets=USD1:NTD 30.29.

Spot exchange rate on the balance sheet date under the title of income=USD1:NTD 29.4679.

**II.State of the company's private placement of marketable securities: No.****III.Holding or disposal of the company's shares by the company's subsidiaries: No.****IV.Other matters to be supplemented Number**

## **Other disclosures**

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## Other disclosures

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### **I.The relevant license acquired by the personnel related to transparency of financial information as specified by the competent authority**

Basic proficiency test of enterprise internal control held by Securities and Futures Institute (SFI): 5 persons in Accounting Department

The R.O.C. Qualified Internal Auditors: two persons in Audit Office.

License for Share Registration Personnel from Securities and Futures Institute: 5 persons in Accounting Department

CPA license: 5 persons in Finance Department.

### **II.Employees' ethics**

The Company published the “Code of Dutiful Conduct” for the employees in 2002, followed by 5 amendments which clearly specifying that, in performing relevant internal and external company tasks under their duties in the company, employees must comply with the regulations about the effective utilization of resources and assets, the protection of trade secrets, the prohibition of insider trading, anti-trust rules, fair trade, avoidance of conflict between the company and personal interests, avoidance of private benefits, the prohibition of bribery, and regulations for network use and second jobs. Corresponding sanctions are also put in place.

### **III.Protection measures for working environment and employees' safety**

The company holds emergency response actions, disaster prevention and safety training, annual health inspection, health symposiums and metal philosophy consultations to ensure the working environment and employees' safety. Meanwhile, according to the update “Safety Policy” in 2005, the company also discloses that its core value focuses on human beings and pursues the “zero” disaster through the operations of “technology”, “safety culture”, “responsibility” and “communication”.



**Any circumstances referred to in Paragraph 2(2) of Article 36 of the Securities and Exchange Act which might materially affect shareholders' equity or the price of the company's securities**

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**Any circumstances referred to in Paragraph 2(2) of Article 36 of the Securities and Exchange Act which might materially affect shareholders' equity or the price of the company's securities-No.**

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# **TSRC Corporation**

Chairman:Shao Yu Wang



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